

1                               BEFORE THE  
2                               ILLINOIS COMMERCE COMMISSION

3   ILLINOIS INDEPENDENT TELEPHONE       ) DOCKET NO.  
4   ASSOCIATION                               ) 00 -0233

5                               )                               )  
6   Petition for initiation of an       )  
7   investigation of the necessity of   )  
8   and the establishment of a       )  
9   Universal Service Support Fund in   )  
10  accordance with Section 13-301(d)   )  
11  of the Public Utilities Act.       )

12   ILLINOIS COMMERCE COMMISSION       ) DOCKET NO.  
13       On Its Own Motion                       ) 00 -0335

14                               )                               )  
15   Investigation into the necessity   )  
16   of and, if appropriate, the       )  
17   establishment of a Universal       )  
18   Support Fund pursuant to Section   )  
19   13-301(d) of the Public Utilities   )  
20   Act.                                       )

21   Springfield, Illinois  
22   June 20, 2001

Met, pursuant to adjournment, at 9:30 A.M.

BEFORE:

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28

29

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1 PROCEEDINGS

2 (Whereupon ICC Staff  
3 Exhibits 7.0 and 15.0 and  
4 Leaf River Company Exhibit 2  
5 were marked for  
6 identification.)

7 EXAMINER WOODS: Back on the record.

8 This is Dockets 00-0233 and 00-0335  
9 Consolidated.

10 We do have witnesses available for cross  
11 today. There are two housekeeping matters to  
12 address before we turn to the cross-examination.

13 First, I believe Mr. Smith has testimony  
14 supported by affidavit that he wishes to introduce  
15 at this time. Mr. Smith.

16 MR. SMITH: Yes, Judge. I have Leaf River  
17 Company Exhibit 2, together with the attached  
18 schedules and an attached affidavit of Katherine L.  
19 Barney that I ask be admitted.

20 EXAMINER WOODS: Without objection.

21 (Whereupon Leaf River  
22 Company Exhibit 2 was

1 received into evidence.)

2 EXAMINER WOODS: In addition, in conversation  
3 had before beginning today, Mr. Fodor, Mr. Smith,  
4 and Mr. Rooney have indicated to me that they have  
5 reached a meeting of the minds on which portions of  
6 the rebuttal testimony of the various companies  
7 were subject to the ruling on the motion to strike.

8 With that in mind, I have asked them to  
9 prepare two copies of that testimony, one of which  
10 will be marked as an exhibit and will simply have  
11 the portions that they have agreed are subject to  
12 the motion to strike stricken out by crossing or  
13 some other means. It doesn't necessarily have to  
14 be copied with the portions removed. Simply  
15 striking them out on the face is sufficient. In  
16 addition, they'll prepare a second clean copy with  
17 nothing stricken out that will be marked as an  
18 offer of proof since the offer of proof for each  
19 witness has been accepted in this docket.

20 MR. SMITH: Well, Judge, let me clarify that.

21 EXAMINER WOODS: Sure.

22 MR. SMITH: I mean I don't have any agreement



1 with Mr. Rooney. He has already admitted on the  
2 record what he has addressed his motion to strike  
3 to.

4 EXAMINER WOODS: Yes.

5 MR. SMITH: With that in mind, we'll furnish  
6 the copies in the format that you've asked.

7 EXAMINER WOODS: Okay. If that's different  
8 than what I just said, that's fine.

9 MR. SMITH: Did you admit my exhibit, please?

10 EXAMINER WOODS: Yes.

11 MR. SMITH: Thank you.

12 EXAMINER WOODS: I believe Mr. Fodor also  
13 wanted to address one issue concerning the motion  
14 to strike. Mr. Fodor.

15 MR. FODOR: Just for the record, I intended  
16 for the response to the motion to strike to also  
17 serve as a request for leave to file the rebuttal  
18 testimony that's in question, and there is a  
19 paragraph in there that suggested that cross of  
20 those witnesses could take place either next week  
21 or the following week. It is my belief that that  
22 would not necessarily have to delay the briefs or

1 the ultimate outcome of this proceeding, and I  
2 would ask leave at this time.

3 EXAMINER WOODS: I'm just really confused as  
4 to what you're asking me.

5 MR. FODOR: Basically I'm asking for leave to  
6 file the testimony which has already been filed and  
7 which has been subject to the motion to strike, and  
8 I'm asking you to continue the hearings after  
9 they're completed on Thursday or Friday to a date  
10 to be determined, either next week or the following  
11 week but prior to the due date for the first brief,  
12 for cross-examination of those witnesses.

13 EXAMINER WOODS: Okay. Well, that's denied.  
14 Mr. Smith?

15 MR. SMITH: Yes. With regard to the motion to  
16 strike, I have a couple of additional matters.

17 I would like to, in support of my  
18 motion, offer an affidavit of Mr. Petrouske into  
19 the record. I furnished a copy to Mr. Rooney and  
20 also furnish you with a case, Commerce Commission  
21 against Operator Communications, Inc., that  
22 addresses the rights of a party to present evidence

1 and be heard under the rules, under the  
2 Administrative Procedure Act. I'm not going to  
3 reargue the motion.

4 EXAMINER WOODS: Okay.

5 MR. SMITH: But I would like to have those  
6 considered as part of my response and, if need be,  
7 reconsideration by you of your prior ruling.

8 EXAMINER WOODS: I'll certainly take a look at  
9 the case during a break.

10 MR. SMITH: Do you want the affidavit?

11 MR. ROONEY: I'm prepared, if you want to hear  
12 a reply, to reply right now.

13 EXAMINER WOODS: Let me look at the case  
14 first.

15 (Whereupon Mr. Smith  
16 provided said document to  
17 Examiner Woods.)

18 EXAMINER WOODS: Anything else? Okay. I  
19 think we're ready for witnesses.

20 Are there any witnesses who intend to  
21 testify today that weren't here yesterday to be  
22 sworn in? Mr. Voss. Anyone else? Anyone who

1 intends to give testimony, would you please rise.

2 (Whereupon two witnesses

3 were sworn by Examiner

4 Woods.)

5 EXAMINER WOODS: Thank you. Be seated.

6 Staff.

7 BILL L. VOSS

8 called as a witness on behalf of the Staff of the

9 Illinois Commerce Commission, having been first

10 duly sworn, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. BRADY:

13 Q. Good morning, sir. Will you please  
14 introduce yourself for the record and spell your  
15 last name?

16 THE WITNESS:

17 A. My name is Bill L. Voss. My last name  
18 is spelled V-O-S-S.

19 Q. And your employer is?

20 A. The Illinois Commerce Commission.

21 Q. And what is your position with the  
22 Illinois Commerce Commission?

1           A.     Subsequent to the preparation of this  
2     testimony I became the Technical Assistant to the  
3     Director of the Financial Analysis Division.

4           Q.     And you prepared testimony for this  
5     proceeding, did you not?

6           A.     Yes, I did.

7           Q.     And do you have a document in front of  
8     you right now?

9           A.     Yes, I do.

10          Q.     And do you recognize that document?

11          A.     Yes, I do. It is entitled ICC Staff  
12     Exhibit 7.0. It consists of questions and answers  
13     in narrative format consisting of 27 pages followed  
14     by schedules, and the schedules run from 7.01  
15     through 7.21.

16          Q.     And was that prepared by you or under  
17     your supervision?

18          A.     Yes.

19          Q.     Are there any corrections to that  
20     document?

21          A.     No.

22          Q.     If we asked you those questions that are

1 in that document today, would your answers be the  
2 same?

3 A. Yes, they would.

4 Q. Mr. Voss, you also have another document  
5 in front of you. I believe its Exhibit 15.0?

6 A. That is correct.

7 Q. Can you describe that document, please?

8 A. Yes. This document consists of updated  
9 schedules for the companies which I have prepared  
10 schedules for in my Staff Exhibit 7.0. I can  
11 describe these schedules and the updates that I  
12 have made further, if I may.

13 Q. Yeah. Can you generally describe what  
14 the updates were, please?

15 A. Sure. After reviewing the rebuttal  
16 testimony of IITA witness Schoonmaker, IITA Exhibit  
17 4, at pages 63 through 67, I have modified my  
18 adjustments for changes in federal funding to only  
19 the changes in the High Cost Loop Fund support.

20 The amounts for the changes in the High  
21 Cost Loop Fund were calculated under my direction.  
22 These amounts agree with Attachment 6 of IITA

1 Exhibit 4. I have used Attachment 6 of IITA  
2 Exhibit 4 as my reference for my adjustments for  
3 changes in the High Cost Loop Fund support. These  
4 modified adjustments are also included in the  
5 schedules prepared by Staff witness Smith that will  
6 be introduced later as ICC Staff Exhibit 16.

7           Additionally, after reviewing the  
8 rebuttal testimony of Frontier Companies' witness  
9 Phillips, Frontier Companies Exhibit 2.0, I  
10 included Mr. Phillips' proposed adjustments for the  
11 depreciation reserve for Frontier Communications of  
12 Depue, which was presented on page 2 of Frontier  
13 Companies Schedule 2.06; also, for Frontier  
14 Companies of Illinois, which was presented on page  
15 2 of Frontier Companies Schedule 2.01, and also for  
16 Frontier Communications - Prairie, which was  
17 presented on page 2 of Frontier Companies Schedule  
18 2.04.

19           After further discussions with  
20 Mr. Phillips, I included adjustments for the  
21 balances of accumulated deferred income taxes to  
22 reflect the amounts shown on Frontier Companies

1     Schedule 2.10.

2           Q.     So Schedule 15.0 was created by you or  
3     under your direction?

4           A.     Yes.

5           MR. BRADY:  At this time, Your Honor, we'd  
6     like to move to enter Staff Exhibits 7.0 and 15.0  
7     into the record and tender the witness for  
8     cross-examination.

9           EXAMINER WOODS:  Objections?  The documents  
10    are admitted without objection.

11                                 (Whereupon ICC Staff  
12                                 Exhibits 7.0 and 15.0 were  
13                                 received into evidence.)

14           EXAMINER WOODS:  The witness is available for  
15    cross.

16           MR. MUNCY:  Go ahead.

17           MR. FODOR:  I don't have any.

18           MR. IRWIN:  I have one question.

19           EXAMINER WOODS:  Okay.

20           MR. IRWIN:  If nobody else does.

21

22



1 CROSS EXAMINATION

2 BY MR. IRWIN:

3 Q. Good morning, Mr. Voss. To your  
4 knowledge -- well, you know yourself, but have  
5 either you or to your knowledge any other member of  
6 the Illinois Commerce Commission Staff been in  
7 contact by telephone or otherwise with members of  
8 the Federal Communications Commission or the  
9 National Exchange Carrier Association respecting  
10 the pending petition for declaratory ruling by  
11 Moultrie Independent Telephone Company before the  
12 Federal Communications Commission?

13 A. Could I have that reread, the beginning  
14 of it, please?

15 (Whereupon the requested  
16 portion of the record was  
17 read back by the Court  
18 Reporter.)

19 A. No.

20 MR. IRWIN: Thank you. No further questions.

21 MR. MUNCY: If I have questions for Mr. Voss,  
22 I need to have some people look at these revised

1 schedules, but I don't know that I have any  
2 questions, but I'm going to need to have the  
3 opportunity to do that.

4 EXAMINER WOODS: Okay. Well, I understand  
5 that based upon the necessity of answering  
6 Commissioner Kretschmer's questions, Mr. Voss is  
7 subject to recall today or tomorrow, so I think he  
8 will be available to answer those questions at that  
9 time.

10 MR. MUNCY: Thank you.

11 EXAMINER WOODS: Okay. Anyone else?

12 MR. FODOR: No questions.

13 EXAMINER WOODS: Okay. Thank you, Mr. Voss.

14 THE WITNESS: Thank you.

15 (Witness excused.)

16 MR. BRADY: Your Honor, could we go off the  
17 record for a second?

18 EXAMINER WOODS: We are off the record.

19 (Whereupon at this point in  
20 the proceedings an  
21 off-the-record discussion  
22 transpired.)

1 EXAMINER WOODS: Back on the record.

2 Mr. Rooney.

3 MR. ROONEY: Thank you.

4 EDWARD C. BEAUVAIS

5 called as a witness on behalf of GTE North Inc. and  
6 GTE South Inc., having been first duly sworn, was  
7 examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. ROONEY:

10 Q. Good morning. Mr. Beauvais, could you  
11 state your name and spell it for the Court  
12 Reporter?

13 THE WITNESS:

14 A. My name is Edward C. Beauvais. The last  
15 name is B-E-A-U-V-A-I-S.

16 Q. Mr. Beauvais, by whom are you employed?

17 A. I'm employed by -- it's going to come  
18 out GTE a lot today, but I'm employed by Verizon.

19 Q. Mr. Beauvais, do you have before you a  
20 document entitled Rebuttal Testimony of Edward C.  
21 Beauvais dated May 11, 2001?

22 A. Yes, I do.

1           MR. ROONEY: And for purposes of the Court  
2   Reporter and the record, that has been marked as  
3   Verizon Exhibit 4.0.

4                   Dr. Beauvais, was this testimony  
5   prepared by you or someone on your behalf.

6           A.     It was prepared by me.

7           Q.     And if I asked you the same questions  
8   that are found within that document, would your  
9   answers be the same?

10          A.     Yes, sir, they would.

11          Q.     And in addition to the testimony there  
12   are three attachments that are attached to your  
13   rebuttal testimony. Is that correct?

14          A.     Correct.

15          Q.     Okay.

16                   Turning to another document that's  
17   entitled the Reply Testimony of the Edward C.  
18   Beauvais and that has been identified as Verizon  
19   Exhibit 5.0 and dated May 31, 2001, do you see that  
20   document in front of you?

21          A.     Yes.

22          Q.     Was that document prepared by you or

1 someone on your behalf?

2 A. Yes, it was.

3 Q. And if I asked you those same questions,  
4 would your answers be the same?

5 A. They would.

6 MR. ROONEY: With that, I would move for the  
7 admission of Verizon Exhibits 4.0 and 5.0 and offer  
8 Dr. Beauvais for cross-examination.

9 EXAMINER WOODS: Any objections? The  
10 documents are admitted without objection.

11 (Whereupon Verizon Exhibits  
12 4.0 and 5.0 were received  
13 into evidence.)

14 EXAMINER WOODS: The witness is available for  
15 cross.

16 MR. FODOR: I have a few questions, sir.

17 EXAMINER WOODS: Mr. Fodor.

18 THE WITNESS: Good morning, sir.

19 CROSS EXAMINATION.

20 BY MR. FODOR:

21 Q. In case you don't remember from  
22 yesterday, I'm Troy Fodor. I represent a couple of

1 the small companies.

2 A. Yes, sir.

3 Q. My first question, sir, is have you ever  
4 been employed by a rural telephone company in a  
5 management position?

6 A. Well, I used to argue that GTE was a  
7 coalition of small urban and rural telephone  
8 companies that just kind of aggregated into one big  
9 one. If that meets your definition of rural, then  
10 yes; if not, no.

11 Q. Okay. Does that meet the FCC's  
12 definition of rural telephone company?

13 A. There are certainly rural exchanges out  
14 there, but we would not fall under the definition  
15 of rural companies, although we do have former GTE  
16 companies that have been classified by state  
17 commissions in some states as rural.

18 Q. That's a fair answer. Thank you.

19 Same question with respect to have you  
20 been employed by a rural company in an operations  
21 capacity?

22 A. With this body, I don't climb telephone

1 poles.

2 (Laughter)

3 No, sir.

4 Q. Actually I wasn't thinking about  
5 climbing poles. I was thinking about maybe  
6 purchasing materials, maybe hiring contract labor,  
7 anything of that nature.

8 A. I've selected consultants and things  
9 like that, yes, but not in the sense that you were  
10 asking I think.

11 Q. Okay. If I asked you the same questions  
12 about small companies, would your answers be  
13 basically the same?

14 A. They'd be fundamentally the same, yes.

15 Q. And if I were to ask you, you know,  
16 whether you've been in various small exchanges  
17 around the state where my clients serve, would you  
18 probably have been there or not, so that I can  
19 decide whether to waste the court's time?

20 A. I have probably been in some of them,  
21 yes.

22 Q. Have you been in St. Jacob?

1           A.     I wouldn't even know where St. Jacob  
2 is, to be honest.

3           Q.     Okay. Have you been in Waterloo?

4           A.     Belgium or --

5           Q.     No, Waterloo, Illinois.

6           A.     No, sir.

7           Q.     How about Grafton? They have a nice  
8 water park there.

9           A.     I may have actually been in Grafton,  
10 Viola probably, Abington, Tuscola, Clinton,  
11 Jacksonville, Springfield, Bloomington -Normal.  
12 Evanston probably doesn't count as small or rural  
13 and neither does Chicago, and that's probably about  
14 the extent of where I've spent my time in Illinois.

15          Q.     Okay. If you were in Grafton, did you  
16 use a phone in Grafton at the time?

17          A.     Probably.

18          Q.     Do you remember having any problems with  
19 their service?

20          A.     I'm sure they provided wonderful  
21 service.

22          Q.     Thank you.



1                   I guess I probably ought to get to my  
2     substantiative question then, huh? If you can --  
3     oh, I don't have the page number marked. Can you  
4     find it for me in your what's titled rebuttal  
5     testimony? I think in the scheme of things it  
6     would have been the first testimony you filed in  
7     this round.

8           A.     The May 11th testimony?

9           Q.     The May 11th testimony, yes. There's a  
10    section in there where you talk about the breakdown  
11    of your affordable rate being 16.99 base and 5.24  
12    usage.

13          A.     Yes, sir. I remember the numbers.

14          MR. ROONEY: It's on page 10.

15          A.     Page 10, yeah.

16          Q.     Okay. My question is specifically with  
17    respect to the calculation of the \$5.24 usage.

18          A.     Yes, sir.

19          Q.     Immediately after the reference, and I'm  
20    focusing on lines -- let's see --

21          MR. SMITH: 195 and 196.

22          Q.     Yeah, 195 through 197.

1           A.     Okay.

2           Q.     Okay?  Is there a statement on lines 195  
3           through 197 that indicates that there is some  
4           Internet dial-up usage in this 5.24?

5           A.     Not that I'm aware of.  When I asked the  
6           calculation to be made, I asked that, you know, to  
7           the extent possible could we exclude Internet dial -  
8           up usage.

9           Q.     Okay.

10          A.     Since you don't always know the number,  
11          some of it may have gotten in there, but I don't  
12          think so because it would translate to roughly 100  
13          calls, somewhere around 400 minutes a month, which  
14          would be somewhere around what you'd expect of a  
15          typical residential, one-party customer usage.

16          Q.     So then what's the purpose of the  
17          statement that we're referring to on lines 195  
18          through 197 that the number would actually go up  
19          because of dial-up Internet?

20          A.     It could very well.  If you recall the  
21          history of the debate between ILECs, CLECs, ISPs,  
22          FCC, and state commissions, a number of state

1 commissions, I believe Illinois included, at one  
2 time had considered Internet-bound traffic to be  
3 local, in which case reciprocal compensation would  
4 have had to have been paid. The FCC has recently  
5 again stated that that stuff is interstate, but  
6 they also kind of included a step-by-step guide how  
7 to appeal their decision, so it is, indeed,  
8 possible to win that back as a local after the  
9 appeal process, so I kind of put it in there to  
10 CYA.

11 Q. That was actually my point, Mr. Beauvais  
12 -- Dr. Beauvais. I'm sorry. Just for the record,  
13 is it not, in fact, the position of Verizon that  
14 dial-up telephone calls to the Internet would not  
15 be local traffic?

16 A. They would not be local traffic. We've  
17 always maintained that.

18 Q. Okay. I thought so.

19 Let's see. I think I've got one last  
20 question for you, if you can turn to page 6 of the  
21 same testimony.

22 A. I'm sorry. Page 6 of the same

1 testimony?

2 Q. Page 6 of the same testimony. Basically  
3 on lines 91 through 102 you're responding to a  
4 question, and you're suggesting that maybe the  
5 small companies could have done more to alleviate  
6 the problems.

7 A. They could have certainly initiated some  
8 process. Whether they could have done it in the  
9 time frame and completed it in the time frame is a  
10 different matter.

11 Q. Okay. Well, I don't want to be too  
12 confrontational, but I have a few questions.

13 A. Okay.

14 Q. Do you have any specific recommendations  
15 for how a company with 1,000 access lines could  
16 make up \$600,000?

17 MR. ROONEY: I would just -- is this a  
18 hypothetical or is this --

19 MR. FODOR: We could either give a  
20 hypothetical or I can name the company.

21 MR. ROONEY: Okay. If it's in the record,  
22 that's fine. I just don't recall that.

1           MR. FODOR: I believe there's a basis in the  
2 record, Your Honor.

3           EXAMINER WOODS: Okay.

4           A.     How they could generate additional  
5 dollars? Depending upon the price that this 1,000  
6 line company is right now, one could certainly  
7 raise the basic local rate. After all, any  
8 (inaudible) estimates of price elasticities for  
9 local rates is very elastic, suggesting that if  
10 you, in fact, raise the price, you will generate  
11 additional revenues with relative little fall-off  
12 in quantity of the customers.

13          Q.     Do you have any idea what kind of a rate  
14 increase it would take for a 1,000 access line  
15 company to raise \$600,000 with that method?

16          A.     Divide 600,000 by 1,000.

17          Q.     Well, I think it's --

18          A.     Not taking into account price  
19 elasticities, but, and again, once again, I have  
20 never stated that that was what would be required.

21          Q.     And that's the purpose of my line of  
22 questioning, just to see what you are suggesting.

1           A.     What we have suggested is or I've  
2     suggested is that Verizon rates are currently  
3     approximately 22 bucks a month for a residence  
4     customer. That in order to -- in a manner above  
5     equity deficiency, the smaller companies should  
6     raise their or attempt to raise their rates to that  
7     level, and if there's any shortfall of revenue  
8     requirement essentially over and above that amount,  
9     we have not objected to funding that on a USF  
10    basis.

11          Q.     So then assuming the small companies get  
12    up to whatever the Commission says is the  
13    affordable rate level, you would think that the  
14    additional deficiency from a rate of return/revenue  
15    requirement standpoint would be an appropriate  
16    funding?

17          A.     I believe under the ICC's current  
18    guidelines, that is how the mechanism would work.  
19    I believe the mechanism would require a  
20    demonstration of forward-looking costs, not just  
21    traditional revenue requirement, but fundamentally  
22    that's correct.

1           MR. FODOR: Okay. Thank you. That's all I  
2 have.

3           THE WITNESS: Yes, sir.

4           EXAMINER WOODS: Mr. Smith.

5           MR. SMITH: Yes.

6                               CROSS EXAMINATION

7           BY MR. SMITH:

8           Q.     In your testimony that's shown as  
9 Verizon Exhibit 4 and in the calculation of your  
10 proposed affordable rate you make reference to less  
11 dense Verizon exchanges in Illinois. Is that  
12 correct?

13          A.     Yes, sir.

14          Q.     And could you elaborate a little bit  
15 about what you mean by that term?

16          A.     Verizon has classified it's exchanges in  
17 Illinois as either Class A or Class B exchanges for  
18 purposes of deaveraging. The Class A exchanges are  
19 basically I think the six largest exchanges in the  
20 state served by Verizon.

21          Q.     Do you recall what they are?

22          A.     Bloomington --

1 Q. Carbondale?

2 A. Carbondale sounds like it would be on  
3 the list. I believe Jacksonville, Freeport --

4 Q. Marion and DeKalb?

5 A. Sounds right.

6 Q. Those are the six. Is that correct?

7 A. I believe that's correct.

8 Q. All right. And then all other Verizon  
9 exchanges in Illinois are what you call Class B?

10 A. They would be Class B exchanges, and  
11 those are the ones that I referred to as the less  
12 dense.

13 Q. And when you use the term less dense,  
14 were you limiting it to only Illinois Verizon  
15 exchanges or were you extrapolating to other states  
16 with Class B?

17 A. The Class B is Verizon North in  
18 Illinois.

19 Q. Only.

20 A. Yes, sir.

21 Q. Okay.

22 Now, with regard to the proposed



1     affordable rate, does your \$22 price include 9-1-1  
2     service?

3           A.     It includes access to 9-1-1 service.  
4     Once you pay the monthly recurring 16.99, that  
5     customer has the ability, assuming the county or  
6     city, municipality has an arranged for 9-1-1  
7     service, if you dial 9-1-1, you will get it.

8           Q.     Okay. So that's included in that price.  
9     That's all I'm trying to --

10          A.     The access to it, yes, sir.

11          Q.     All right.

12          MR. ROONEY: Can I just clarify? Are you  
13     talking about the surcharge or the access to?

14          MR. SMITH: The surcharge.

15          A.     Oh. No, not at all. The municipality  
16     may ask Verizon or essentially will ask Verizon to  
17     collect that as an additional item on their bill.

18          Q.     All right. So just so the record is  
19     clear, there is an additional charge to Verizon  
20     customers for the 9-1-1 surcharge above and beyond  
21     your proposed \$22 affordable rate.

22          A.     Yes, sir.

1           Q.     And is the same true with regard to a  
2     federal subscriber line charge?

3           A.     The subscriber line charge would be in  
4     addition.

5           Q.     All right. And how about taxes? Taxes  
6     would be in addition to your proposed affordable  
7     rate as well. Correct?

8           A.     Yes, sir.

9           Q.     Does it include a state subscriber line  
10    charge?

11          A.     I don't believe Verizon has a state  
12    subscriber line charge.

13          Q.     But I'm asking about your proposal, your  
14    proposed affordable rate of 22.

15          A.     If the smaller companies do not have a  
16    current state subscriber line charge or it is  
17    billed separately and not included in your rates  
18    like it is ours, then it would not include that as  
19    well.

20          Q.     And touch-tone service, does it include  
21    a charge for touch-tone service?

22          A.     The 16.99 does include touch-tone

1 service.

2 Q. Do you know how many exchanges there are  
3 in Class B in Illinois for Verizon?

4 A. Well in excess of 400 I believe.  
5 Somewhere around 450, 460, somewhere in that range  
6 I think, which would have an average R-1 line count  
7 of about 1,000 lines per exchange on average.

8 Q. Other than pole sharing, does Verizon  
9 share facilities with any other utility?

10 A. We certainly share facilities with other  
11 utilities. I cannot tell -- I would suspect some  
12 of them may be conduit, but I don't know that.

13 Q. You are aware that there are pole  
14 facilities sharing?

15 A. I have been informed that there is  
16 sharing of poles, yes, sir.

17 Q. But beyond that, you don't know.

18 A. I don't know.

19 Q. And is that pole sharing in the Class B  
20 exchanges?

21 A. I would think that it is, but, again,  
22 that would have to be subject to check. It would

1     also be in Class A as well.

2           Q.     You're certain it's in Class A?

3           A.     I'm fairly confident it's in Class A,  
4     but, once again, that would have to be subject to  
5     check.

6           MR. SMITH:  No further questions.

7           EXAMINER WOODS:  Anyone else?  Mr. Muncy?

8           MR. MUNCY:  Briefly.

9                   CROSS EXAMINATION

10          BY MR. MUNCY:

11          Q.     Dr. Beauvais, you discuss implementation  
12     issues or administration issues in your initial set  
13     of testimony, and, as you know, Mr. Schoonmaker has  
14     addressed those kinds of issues as well, and we're  
15     somewhat concerned about how the fund is going to  
16     be administered and how it's going to be rapidly  
17     implemented.  You talk about an industry working  
18     group in your testimony.  Do you envision that  
19     group being delegated specific authority?  How do  
20     you envision that working?

21          A.     I'll say it may be easier and more  
22     rapid, given the time frame of September 1st for

1 the funding, that if a group of individuals could  
2 get together from the companies and agree which  
3 information was to be exchanged with the fund  
4 administrator and how, that it might be easier to  
5 do that within the industry group than the formal  
6 proceeding through the Commission, just to get to  
7 your fund as rapidly as possible.

8 Q. And there would have to be an identified  
9 source of data in order for the fund administrator,  
10 whatever size of the fund that is determined, to be  
11 able to bill the funding carriers if the  
12 Commission, for example, decides that the funding  
13 methodology should be on intrastate retail  
14 revenues.

15 A. Yes, sir, I would agree with that.

16 Q. If the Commission determines that there  
17 should be an end-user surcharge on customer bills  
18 in connection with this, is the Commission going to  
19 have to set the amount of that surcharge or is that  
20 something that should be delegated to the  
21 administrator since the amount could not be  
22 determined until the whatever intrastate retail

1 revenues were being used as a base was known?

2 A. I guess I would envision it that the  
3 fund administrator, after getting all the  
4 information from all the carriers and Commission  
5 determination of fund size, would calculate  
6 whatever the percentage surcharge might be and then  
7 bring it back to the Commission and say this is the  
8 rate, and the Commission would essentially state  
9 that's the rate to be applied.

10 Q. In light of the implementation problems  
11 and the need to do it rapidly, I mean is that  
12 something that you believe that -- are you  
13 recommending a procedure that would require yet  
14 another Commission order before fund implementation  
15 could occur or simply determining a mechanism by  
16 which it could occur?

17 A. I believe that actually coming out of  
18 this proceeding the Commission could say this is  
19 how we will do it, and so when you bring the --  
20 when the fund administrator brings the recommended  
21 rate back to the Commission, the process has  
22 already been approved, and it would just be a

1 matter of the Commission saying okay, that's the  
2 number.

3 Q. And so if the Commission -- would you  
4 agree that the Commission needs to make those kind  
5 of determinations in this order so that the  
6 administrator that is chosen has clear direction  
7 about how to proceed in order to allow for rapid  
8 implementation?

9 A. Given the time frame involved, I believe  
10 the answer has to be yes.

11 MR. SMITH: I'm sorry. Were you through?

12 MR. MUNCY: I'm thinking.

13 MR. SMITH: Okay.

14 MR. MUNCY: That's all the questions I have.

15 EXAMINER WOODS: Mr. Smith.

16 CROSS EXAMINATION

17 BY MR. SMITH:

18 Q. Dr. Beauvais, I forgot to ask you a  
19 moment ago, does your proposed affordable rate  
20 include a charge for ITAC?

21 A. I believe the ITAC is a separate line  
22 item and would not be.

1           Q.     Do you know, are the rates for your  
2     Class A and Class B exchanges different or are they  
3     the same?

4           A.     The usage rates are the same. The line  
5     rates in the Class A exchanges are a dollar cheaper  
6     per line per month.

7           Q.     Would the revenue in Class A exchanges  
8     be used to support the Class B exchanges?

9           A.     Are there internal cross-subsidizations  
10    in the rates?

11          Q.     Yeah.

12          A.     There could very well be, especially  
13    with large volume users and vertical services.

14          Q.     Your business and your residential rates  
15    are the same, are they not?

16          A.     R-1 and B-1 rates are the same, yes,  
17    sir.

18          Q.     And that's for --

19          A.     For Class A and Class B. Class A is the  
20    same. Residential customers and business customers  
21    pay the same monthly recurring charge, and the same  
22    is true in B exchanges.



1 MR. SMITH: Thank you. That's it.

2 EXAMINER WOODS: Mr. Irwin.

3 CROSS EXAMINATION

4 BY MR. IRWIN:

5 Q. Dr. Beauvais, returning to Mr. Fodor's  
6 -- is it Fodor or Fodor?

7 MR. FODOR: Fodor.

8 Q. Mr. Fodor's line of questioning --

9 MR. SMITH: Sometimes he feels like fodder.

10 (Laughter)

11 Q. -- about the 1,000 line telephone  
12 company with the \$600,000 shortfall, you testified  
13 that one possibility would be that the telephone  
14 company could raise its local rates. Is that not  
15 correct?

16 A. To some level, yes, sir.

17 Q. And, likewise, that telephone company,  
18 to make up the \$600,000 shortfall, could eliminate  
19 or defer capital expenditures.

20 A. It could somehow reduce its operating  
21 costs.

22 Q. And that might include laying people

1 off.

2 A. An experience we're all too familiar  
3 with lately, yes.

4 Q. And, finally, it could seek additional  
5 revenues by raising its originating and terminating  
6 access charges.

7 A. That's a possibility, yes, sir.

8 MR. IRWIN: Thank you.

9 EXAMINER WOODS: Staff?

10 MR. HARVEY: Nothing.

11 EXAMINER WOODS: Anybody else? Redirect?

12 MR. ROONEY: I just had one clarifying  
13 questions, Dr. Beauvais.

14 REDIRECT EXAMINATION

15 BY MR. ROONEY:

16 Q. When you identified the Class B  
17 exchanges in response to a question from Mr. Smith,  
18 you said that that included Verizon North. Would  
19 you agree that that would also include Verizon  
20 South's operations in Illinois?

21 A. Oh, yeah. Just the vast majority of our  
22 customers are Verizon North customers.

1           Q.     With respect to the -- actually I had  
2     more than one question.

3                     With respect to your proposal with  
4     respect to the affordable rate, does Verizon have  
5     control over the assessment of the federal  
6     subscriber line charge in terms of the amount of  
7     that?

8           A.     The amount is set by the FCC.

9           Q.     And so when you are identifying the  
10    affordable rate in your testimony, is that the --  
11    that's developed then from Verizon's revenue  
12    requirement as approved by the Commission?

13          A.     That's correct.  It's based on the  
14    tariffed local rate as approved by the Commission.

15          MR. ROONEY:  Nothing further.

16          EXAMINER WOODS:  Okay.  Thank you,  
17    Dr. Beauvais.

18                                 (Witness excused.)

19          EXAMINER WOODS:  I think before we get to the  
20    next witness up, I would indicate that I have had  
21    the opportunity to examine the case offered by  
22    Mr. Smith and find it not controlling in this

1 instance. My reading of the case indicates that it  
2 dealt with the opportunity to appear, present  
3 evidence, and be heard through either  
4 cross-examination of witnesses or argument. I  
5 think all those things have happened in this case  
6 on behalf of Mr. Smith and Mr. Fodor.

7 I think implicit in the theory of  
8 presenting evidence is the evidence must be  
9 admissible. What happened here is evidence was  
10 offered. It was found to be inadmissible, and the  
11 ruling was based upon the inadmissibility, not the  
12 forbearance of any opportunity to present evidence.

13 In addition, there is the necessity that  
14 rulings be impartial. I would suggest to Mr. Smith  
15 and Mr. Fodor, if they believe that impartiality is  
16 an issue, there is a process in place for  
17 substitution of examiners, and I certainly would  
18 not stand in the way of getting a substitute  
19 examiner in this docket. So if you wish to pursue  
20 that, I would encourage that avenue.

21 Next witness.

22 MR. SMITH: I think I'll decline your

1 invitation.

2 EXAMINER WOODS: I figured you would.

3 MR. BRADY: I believe Staff has Judy Marshall.

4 EXAMINER WOODS: Ms. Marshall.

5 (Whereupon ICC Staff  
6 Exhibit 14.0 was marked for  
7 identification.)

8 JUDITH R. MARSHALL

9 called as a witness on behalf of the Staff of the  
10 Illinois Commerce Commission, having been first  
11 duly sworn, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. BRADY:

14 Q. Good morning. Will you please introduce  
15 yourself to the hearing room?

16 THE WITNESS:

17 A. Yes. My name is Judith R. Marshall.  
18 I'm with the Telecommunications Division of the  
19 Illinois Commerce Commission.

20 Q. And did you prepare testimony for this  
21 hearing?

22 A. Yes, I did.

1           Q.     And do you have that document in front  
2     of you?

3           A.     Yes.

4           Q.     And that is Exhibit 14, Staff Exhibit  
5     14.0?

6           A.     Yes, it is.

7           Q.     And there are six pages of text?

8           A.     Yes, there are.

9           Q.     And was this created by you or under  
10    your direction?

11          A.     Yes, it was.

12          Q.     Are there any corrections that you want  
13    to -- that you have to make to this document?

14          A.     No.

15          Q.     Attached to this document did you not  
16    also have a schedule, two schedules, Schedules  
17    14.01 and 14.02?

18          A.     Yes, I do.

19          Q.     And were these created at your  
20    direction?

21          A.     Yes, they were.

22          Q.     And one of these is a proprietary

1 document. Correct?

2 A. Yes. Schedule 14.02 contains some  
3 proprietary information, so it's been provided in  
4 two forms.

5 Q. Okay.

6 Going back to the testimony, if I asked  
7 you those same questions that are in your testimony  
8 today, would you provide the same answers?

9 A. Yes, I would.

10 MR. BRADY: At this time, Your Honor, we would  
11 like to -- we would move to enter Staff Exhibit  
12 14.0 with its Schedules 14.01 and 14.02 into the  
13 record, and we will also have a 14.02 -P for  
14 proprietary.

15 EXAMINER WOODS: Objections? The documents  
16 are admitted without objection.

17 (Whereupon ICC Staff  
18 Exhibit 14.0 was received  
19 into evidence.)

20 EXAMINER WOODS: The witness is available for  
21 cross-examination.

22 MR. FODOR: I just have a few.

1 EXAMINER WOODS: Mr. Fodor.

2 CROSS EXAMINATION

3 BY MR. FODOR:

4 Q. Ms. Marshall.

5 A. Yes.

6 Q. Do you have an understanding of how  
7 federal interstate access rates are set?

8 A. I don't have any detailed knowledge. I  
9 have a general understanding.

10 Q. You're not familiar with the FCC rules,  
11 specifically Part 61.39 for historical filers?

12 A. I perhaps am generally familiar. I  
13 couldn't cite it to you.

14 Q. With your general knowledge of the FCC  
15 rules, rule, ratemaking, excuse me, would you  
16 believe it to be true if I said if there were a  
17 surplus in a given year from the interstate access  
18 rates, a surplus generated by that, that in  
19 subsequent years the federal rules would correct  
20 for that and there would be a reduction?

21 A. I would expect that that might be the  
22 case, yes.



1           Q.     Okay.  So in Illinois where we have  
2     mirroring, wouldn't it also be a true statement  
3     that if there were a surplus from intrastate access  
4     rates this year, that because of the mirroring of  
5     the federal rates that would to some extent be  
6     corrected in subsequent years?

7           A.     Yes.

8           MR. FODOR:  That's all I have.

9           EXAMINER WOODS:  Surplus over what?

10          MR. FODOR:  Surplus revenue over expenses.

11          EXAMINER WOODS:  Measured how?

12          MR. FODOR:  Measured pursuant to the FCC rules  
13     for ratemaking purposes.

14          EXAMINER WOODS:  And that is?

15          MR. FODOR:  Part 61.39 for historical filers.

16          EXAMINER WOODS:  I'm a little uncomfortable  
17     when we start talking about surpluses without any  
18     foundation as to what --

19          MR. FODOR:  Okay.

20          EXAMINER WOODS:  I mean in order for there to  
21     be a surplus, there must be a base line amount, and  
22     I don't think there's anything in the record or in

1     any of your foundational questions of her as to how  
2     we establish that base line amount. In fact, I  
3     think she said she doesn't know how, so I'm  
4     uncomfortable having a record with open facts like  
5     that in cross-examination without some way to fill  
6     in that blank.

7             MR. FODOR: Okay.

8             EXAMINER WOODS: So if you can elucidate me.

9             MR. FODOR: I can.

10            EXAMINER WOODS: Please do.

11            MR. FODOR: Ms. Marshall's testimony.

12            EXAMINER WOODS: Yes.

13            MR. FODOR: Suggests a reduction of  
14     approximately \$297,444.

15            EXAMINER WOODS: Okay.

16            MR. FODOR: It's our position that that  
17     reduction is, in fact, what I was just talking  
18     about, a subsequent true-up for surpluses in prior  
19     years.

20            EXAMINER WOODS: Okay.

21                     Anybody else? Mr. Irwin.

22            MR. IRWIN: Just one question, Ms. Marshall.

1 CROSS EXAMINATION

2 BY MR. IRWIN:

3 Q. Have you or anybody else on the Illinois  
4 Commerce Commission Staff or in the employ of the  
5 Illinois Commerce Commission had any conversations  
6 or communications by phone, e-mail, or otherwise  
7 respecting the petition for declaratory ruling  
8 filed by the Moultrie Independent Telephone Company  
9 before the Federal Communications Commission?

10 A. I would not be able to answer on behalf  
11 of other Staff members. I myself have not had such  
12 conversations.

13 MR. IRWIN: Thank you, Ms. Marshall.

14 EXAMINER WOODS: Anyone else? Okay.

15 Redirect?

16 MR. BRADY: No redirect, Your Honor.

17 EXAMINER WOODS: Thank you, Ms. Marshall.

18 (Witness excused.)

19 MR. BRADY: At this time, Your Honor, we would  
20 like to call Alan Pregozen.

21 EXAMINER WOODS: Mr. Pregozen.

22 MR. HARVEY: We've got Tom Smith actually. We

1     don't have Alan.

2             EXAMINER WOODS:  Mr. Pregozen, a/k/a Tom  
3     Smith.

4             MR. BRADY:  Why don't we go ahead with Tom  
5     Smith and get him done with the accounting.

6                             (Whereupon ICC Staff  
7                             Exhibit 6.0, 6.0S, and 16.0  
8                             were marked for  
9                             identification.)

10            EXAMINER WOODS:  Mr. Smith, I don't think you  
11     were sworn.  I believe Mr. Pregozen is coming in  
12     the room as well as Dr. Staranczak I think.  Would  
13     the Staff witnesses who intend to give testimony  
14     please stand to be sworn.

15                            (Whereupon two witnesses  
16                            were sworn by Examiner  
17                            Woods.)

18            EXAMINER WOODS:  Thank you.  Be seated.

19

20

21

22

1                   THOMAS Q. SMITH

2       called as a witness on behalf of the Staff of the  
3       Illinois Commerce Commission, having been first  
4       duly sworn, was examined and testified as follows:

5                   DIRECT EXAMINATION

6           BY MR. BRADY:

7           Q.     Good morning, sir. Will you please  
8       introduce yourself to the hearing room?

9           THE WITNESS:

10          A.     My name is Thomas Q. Smith. My business  
11       address is 527 East Capitol Avenue, Springfield ,  
12       Illinois. I'm an accountant with the Accounting  
13       Department of the Illinois Commerce Commission.

14          Q.     And did you provide testimony in this  
15       hearing, for this hearing?

16          A.     Yes, I did.

17          Q.     And do you have that in front of you  
18       right now?

19          A.     Yes, I do.

20          Q.     And that is labeled Staff Exhibit 6.0?

21          A.     That is one piece of testimony that I'm  
22       presenting, yes.

1           Q.     Let's look at that for right now.  There  
2     is 19 pages of testimony with that.  Is that what  
3     you have?

4           A.     Yes, 19 pages of text.

5           Q.     And then you have schedules -- attached  
6     to that Schedules 6.01 to 6.20?

7           A.     That is correct, each of those schedules  
8     consisting of two pages.

9           Q.     And was this prepared by you or at your  
10    direction?

11          A.     Yes, it was.

12          Q.     And if I asked the questions that are in  
13    your testimony today, would your answers be the  
14    same?

15          A.     Yes, they would.

16          Q.     Are there any corrections to this  
17    document that you have at this time?

18          A.     No.

19          Q.     Mr. Smith, you also have Staff Exhibit  
20    16.0, Schedule 16.01 in front of you, do you not?

21          A.     Yes, I do.

22          Q.     This includes Schedules 16.01 to 16.20.

1 Correct?

2 A. That's correct.

3 Q. Can you briefly describe what this  
4 document is for us?

5 A. This document sets out the same  
6 information that's contained in the similarly  
7 identified schedules attached to Exhibit 6.0 except  
8 they have been adjusted to reflect changes based on  
9 the testimony of Mr. Voss. With one exception,  
10 Schedule 16.11 actually replaces a schedule  
11 contained in my Exhibit 6.0S, which I don't believe  
12 we've discussed yet.

13 Q. Do you have 6.0S in front of you?

14 A. Yes, I do.

15 Q. Okay. And this document includes three  
16 pages of text?

17 A. That's correct.

18 Q. And it also has Schedule 6.11S which is  
19 two pages?

20 A. That's correct.

21 Q. And this was prepared by you?

22 A. Yes, it was.

1           Q.     Are there any corrections to this  
2 document?

3           A.     No.

4           MR. BRADY:  At this time, Your Honor, we would  
5 like to move into the record Staff Exhibits 6.0,  
6 6.0S, and 16.0 and tender the witness for  
7 cross-examination.

8           EXAMINER WOODS:  Objection?  The documents are  
9 admitted without objection.

10                               (Whereupon ICC Staff  
11                               Exhibits 6.0, 6.0S, and 16.0  
12                               were received into  
13                               evidence.)

14           EXAMINER WOODS:  The witness is available for  
15 cross.  Mr. Irwin.

16                               CROSS EXAMINATION

17           BY MR. SMITH:

18           Q.     Mr. Smith, has your role in this  
19 proceeding been limited to making these  
20 calculations?

21           A.     Well, my role is limited to my testimony  
22 which includes those calculations or the



1       calculations on the schedules I've identified, yes.

2               MR. SMITH: No further questions.

3               EXAMINER WOODS: Mr. Irwin.

4                               CROSS EXAMINATION

5               BY MR. IRWIN:

6               Q.       Good morning, Mr. Smith. My name is  
7 David A. Irwin. I'm counsel for the Moultrie  
8 Independent Telephone Company.

9                       I see at the introductory portions of  
10 your testimony that you are a Certified Public  
11 Accountant and a member of the American Institute  
12 for Certified Public Accountants. Is that correct?

13              A.       Yes.

14              Q.       And as a CPA or a member of the AICPA,  
15 is there any requirement to take continuing  
16 mandatory education to keep your state licensing or  
17 certification current?

18              A.       The various states have different  
19 requirements. Both Michigan and Illinois have  
20 requirements, and membership in the AICPA also has  
21 requirements for continuing education. That's  
22 correct.

1 Q. Have you fulfilled those requirements?

2 A. Yes, I have.

3 Q. Thank you.

4 Turning to page 1 near or about line 13  
5 of your testimony, you state that your Department's  
6 function is to monitor the financial condition of  
7 public utilities as part of the Commission's  
8 function under Article IV of the Public Utilities  
9 Act. Is that not correct?

10 A. Yes, that's correct.

11 Q. Can you tell us for the record where  
12 functions such as monitoring public utilities'  
13 financial condition is set forth specifically?

14 A. I don't have a specific cite for that,  
15 no.

16 MR. IRWIN: Counsel, can you provide that to  
17 us?

18 MR. BRADY: Yes, we can look through the  
19 statute and get something for you.

20 Q. Similarly, can you direct us to Illinois  
21 law that states -- that sets forth required levels  
22 of revenues such as you alluded to on page 2, line

1 37, for Moultrie or the other 20 telephone  
2 companies that are subject to your  
3 cross-examination?

4 MR. HARVEY: I think we'll have to objection  
5 to that. He has already -- his professional bona  
6 fides are clearly in his testimony. He is not an  
7 attorney. I'm not certain what this line of  
8 questioning is designed to elicit. He can  
9 certainly have the general knowledge of the  
10 regulatory structure under which public utilities  
11 are regulated in this state without being able to  
12 cite specific statutes, and I would object on that  
13 basis.

14 MR. IRWIN: Mr. Examiner, I suggest it's a  
15 legitimate line of inquiry, and he either knows or  
16 he doesn't know.

17 EXAMINER WOODS: What page and line reference,  
18 please?

19 MR. IRWIN: I'm at page 2, and let me just  
20 verify the line.

21 EXAMINER WOODS: Supplemental?

22 MR. IRWIN: No, I'm in the direct. I'm

1     basically on line 37. The sentence is: "I am to  
2     review the testimonies and other filings in this  
3     docket for the purpose of identifying the amount of  
4     revenue that falls below required levels for 20  
5     small companies", and I'm trying to find out what  
6     he means by and what the source of required levels  
7     is.

8           EXAMINER WOODS: Okay. Well, I think that's  
9     an appropriate question. I think if you're going  
10    to ask him about a particular statute, you need  
11    some more foundation as to exactly what that means.  
12    So I think if you want to draw him out on what he  
13    means by required levels, I think that's fine, but  
14    I don't think we can get to the statute without  
15    some more foundation.

16          MR. IRWIN: I will pursue it along those  
17    lines.

18          EXAMINER WOODS: Thank you.

19          MR. IRWIN: Mr. Examiner.

20          Q.     Mr. Smith, can you tell me what the  
21    derivation of the concept of required levels is?

22          A.     As I've used the term here, I'm speaking

1 generally with a general knowledge of the needs for  
2 all utilities and in this case telephone utilities  
3 to earn enough money and to collect enough revenues  
4 to recover the costs of operating the utility.

5 Q. Thank you. Thank you very much.

6 Have you ever been in the employ of any  
7 local exchange telephone company?

8 A. No, I haven't.

9 Q. Have you ever been employed by a for -  
10 profit telecommunications company?

11 A. No.

12 Q. Have you ever made a site visit to  
13 Moultrie Independent Telephone Company in  
14 Lovington, Illinois?

15 A. Not to my recollection. I don't think I  
16 have, but I have visited various sites and various  
17 utilities. I don't have any recollection of  
18 visiting Moultrie.

19 Q. In the overall conduct of business and  
20 affairs by the Staff of the Illinois Commerce  
21 Commission, is it not correct that more time and  
22 resources are spent on the regulatory matters of

1 the larger companies versus the smaller companies?

2 MR. HARVEY: I think he could probably answer  
3 that as to his own, you know, responsibilities and  
4 activities. I'm not sure he could answer it to the  
5 Commission Staff level.

6 MR. IRWIN: Well, counsel, why don't we let  
7 the witness answer.

8 MR. HARVEY: I'll object on that basis, and  
9 I'll ask for a ruling.

10 EXAMINER WOODS: Ask the question again,  
11 please.

12 MR. IRWIN:

13 Q. Mr. Smith, let's do it in two steps.  
14 Based on your own personal experience, can you tell  
15 us for the record whether you spend more time on  
16 the regulatory affairs of the larger companies  
17 versus the smaller companies?

18 A. I have a lot of trouble with that. I  
19 spend a lot of time on small companies. Whether  
20 it's more time than I spend on large companies, I  
21 can't say. I don't keep a log in that sense, or at  
22 least I don't review that log frequently.

1 Q. Do you think it's about 50/50?

2 A. I spend a lot of time on small  
3 companies. I haven't thought about it.

4 MR. IRWIN: I'll drop the other question.

5 Mr. Examiner, I'd like to write a  
6 formula on the board, and I don't know whether to  
7 use this board or that board. I think I'm going to  
8 use this one.

9 Q. Can I borrow a corner of your --

10 A. Fine with me.

11 Q. And I'll also ask you if you can see the  
12 board, and I'll write large.

13 Mr. Smith, I've written on the board  
14  $R = (I - D) + E$ , and I suggest to you that that is a  
15 depiction [sic] of the revenue requirement  
16 formula where a large R represents the total  
17 revenue requirements that a company must earn as a  
18 function of the prescribed rate of return times the  
19 net rate base. The net rate base is represented by  
20 I, investment, minus depreciation plus expenses.  
21 Do you accept that formula?

22 A. I don't think I've ever seen it in

1 exactly that same way, but that's consistent with  
2 my understanding.

3 Q. I would like you to assume that we have  
4 a telephone company that puts in its investment.  
5 Service levels are good. Rates are just and  
6 reasonable, and over some prescribed period of time  
7 it depreciates its entire plant so that  $I$  minus  $D$   
8 equals zero. Would you then agree that the formula  
9 would at that point in time mean that large  $R$   
10 equals  $E$ ?

11 A. In a purely academic undertaking or  
12 looking at the formula and without regards to the  
13 specific operations of a specific utility, I would  
14 agree that's the mechanics of the formula, yes.

15 Q. That's essentially what I'm asking.  
16 Thank you.

17 I'd also like you to assume that a  
18 telephone company is approached by an entity, an  
19 entity that I'll call Mega-Leasing Co., and  
20 Mega-Leasing Co. says to the telephone company I  
21 will purchase all of your assets, all of your rate  
22 base, and I will lease them back to you on terms



1 and conditions that are very, very favorable.

2 Would then the formula also revert to R equals E?

3 A. I couldn't begin to answer that.

4 There's too many assumptions in there.

5 Q. Well, let's take it one step at a time  
6 then.

7 Do you have any concept with -- well,  
8 let me ask you this question. Do you know of  
9 anything at law or at regulatory rulings that  
10 requires an independent local exchange telephone  
11 company to physically own assets or rate base in  
12 the provision of its services?

13 MR. BRADY: Objection, Your Honor. He's only  
14 speaking within the context for which he's  
15 testified. He's asking him now to interpret or  
16 look at laws outside or his understanding or grasp  
17 of the laws and regulatory concepts.

18 EXAMINER WOODS: What are we crossing here?

19 MR. IRWIN: Pardon?

20 EXAMINER WOODS: What portion of his testimony  
21 are we crossing here?

22 MR. IRWIN: Well, I'm ultimately getting to

1 the part where he concludes that a certain  
2 transaction that my client undertook was a sham.

3 EXAMINER WOODS: Okay.

4 MR. IRWIN: And I believe that this line of  
5 cross-examination pertains to it. I'd be happy to  
6 limit it to the State of Illinois, if that would  
7 help objecting counsel.

8 EXAMINER WOODS: If that's where we're going,  
9 I think that's an appropriate line of questioning,  
10 and I think because we're in Illinois and this is  
11 the Illinois Commerce Commission, we should  
12 probably limit it to Illinois.

13 MR. IRWIN: I'm very happy to limit it to  
14 Illinois. I remember what happened to that poor  
15 soul from Michigan yesterday.

16 EXAMINER WOODS: That's right.

17 MR. IRWIN:

18 Q. Mr. Smith, do you know of any law,  
19 regulation, statute within the confines of Illinois  
20 that require an independent local exchange  
21 telephone company subject to the jurisdiction of  
22 the Illinois Commerce Commission to physically own

1 rate base or assets in the provision of its  
2 service?

3 A. By physically own, do you mean to hold  
4 legal title?

5 Q. To hold legal title, yes.

6 A. I haven't explored that question, so the  
7 answer is no.

8 Q. Is it fair to say that one of the bottom  
9 lines, and there may be more than one, of  
10 regulation in the State of Illinois is to ensure  
11 that customers receive an adequate level of service  
12 at just and reasonable rates?

13 A. Yes.

14 Q. Thank you.

15 I want to talk a little bit about the  
16 subject of competition. Is it fair to state that  
17 in the post Telecommunications Act of 1996 era that  
18 there are no safe harbors against competition for  
19 telephone companies subject -- rural independent  
20 telephone companies subject to the statutes in  
21 Illinois?

22 MR. HARVEY: I think we're pretty far beyond

1 the scope of Mr. Smith's, the CPA's, testimony  
2 here. The state of competition in Illinois is a  
3 policy matter that scarcely is addressed in his  
4 testimony; in fact, it isn't.

5 EXAMINER WOODS: Where are we going with this?

6 MR. IRWIN: Pardon?

7 EXAMINER WOODS: Where are we going with this?

8 MR. IRWIN: I'm getting to affordable rate.

9 MR. HARVEY: And, again, Mr. Smith is  
10 testifying as an accountant. If counsel wants to  
11 ask Dr. Staranczak about affordable rates, he can  
12 certainly do it. Dr. Staranczak is our witness on  
13 what the affordable rate is.

14 MR. IRWIN: Mr. Examiner, I can defer my line  
15 of cross for Dr. Staranczak, if I'm pronouncing the  
16 gentleman's name correctly.

17 MR. HARVEY: You are.

18 MR. IRWIN: Let me just make a note, if I may,  
19 please.

20 EXAMINER WOODS: Sure.

21 MR. IRWIN:

22 Q. Mr. Smith, let me direct your attention

1 to page 12, line 12, where you characterize the  
2 transaction that I've alluded to a number of times  
3 in the cross-examination of others that's the  
4 subject of a petition for a declaratory ruling  
5 before the Federal Communications Commission, and  
6 you characterize that transact, transferring  
7 certain non-operating assets, in particular  
8 buildings and vehicles, to Moultrie InfoComm as a  
9 sham.

10 MR. BRADY: Which line?

11 MR. IRWIN: I'm at page 12, line 12. Let me  
12 make sure I'm right. I'm sorry; I stand corrected.  
13 I'm on page 12, line 279.

14 Q. Do you see that testimony where it  
15 states --

16 A. I see the testimony. I use the word  
17 sham. I think you made reference to non-operating  
18 assets. It was a long question. I'm not sure that  
19 I agree with all your characterizations. I had  
20 trouble following them, but I do use the word sham,  
21 yes.

22 Q. And the transaction, as you understood,

1     had to do with the transfer from one corporate  
2     affiliate of certain buildings? Is that correct?  
3     Or don't you know?

4           A.     Yes, yes, it's my understanding that  
5     Moultrie MultiCorp transferred the records or the  
6     assets from the books of Moultrie Independent  
7     Telephone to the assets -- or to the books of  
8     Moultrie MultiCorp -- or Moultrie InfoComm.

9           Q.     I also direct your attention to page 11,  
10    line 260, where you state that after the transfer  
11    of property, the property is still used, and I  
12    quote, "exclusively" by Moultrie Independent  
13    Telephone Company. Is that your testimony?

14          A.     That is my testimony. It was based on  
15    my interpretation of a response to a data request.  
16    It's my understanding that, indeed, other entities  
17    of Moultrie MultiCorp do, indeed, use a portion of  
18    those assets.

19          MR. IRWIN: Mr. Examiner, I'm going to read  
20    some definitions out of Webster's Ninth New  
21    Collegiate Dictionary, and also I can lay a  
22    foundation for this. It's my understanding that

1 CPAs do take some law courses, and since Mr. Smith  
2 has testified respecting sham in the context of tax  
3 implications, that it's fair to read the definition  
4 of sham out of Black's Law Dictionary simply to ask  
5 him if he agrees or disagrees, and I'm proffering  
6 him and I'm intending to do that prior to doing so  
7 to avoid another round of objection by Staff  
8 counsel.

9 EXAMINER WOODS: Let him know.

10 MR. IRWIN: Thank you, Mr. Examiner.

11 Q. Mr. Smith, as you heard, I'm going to  
12 read you the definition of sham. May I approach  
13 the witness?

14 MR. HARVEY: Please do.

15 Q. From Webster's Ninth New Collegiate  
16 Dictionary, and although the binding didn't quite  
17 open, it says sham: Definition 1, a trick that  
18 deludes: HOAX; definition 2: cheap, fal seness.

19 A. That is a definition that is included in  
20 Webster's Dictionary, yes.

21 Q. And my question to you, Mr. Smith, is do  
22 you agree or disagree with that definition?

1           A.     Well, it's a definition. That is not  
2     the definition of the term as I've used it.

3           Q.     Okay. We'll come back to that.

4                     I likewise show you the cover page of  
5     Black's Law Dictionary, Fifth Edition, and I read  
6     to you the definition of sham from that dictionary,  
7     and it says: False. A transaction without  
8     substance that will be disregarded for tax  
9     purposes. Do you agree or disagree with that  
10    definition?

11          A.     Well, again, those are the words that  
12    are on the page. My use of the word sham was not  
13    based on that definition.

14          Q.     Well, would you tell us for the record  
15    what you intended by the use of the word sham that  
16    neither conformed to either of those two  
17    definitions?

18          A.     As I use the term sham, it refers to a  
19    transaction between entities who are essentially  
20    owned by the same entity.

21          Q.     That is to say that the two entities  
22    that transferred the property that we've been



1 discussing has stock ownership in each of those two  
2 entities.

3 A. A single entity owns both of the  
4 entities between whom the transaction occurred,  
5 yes.

6 Q. And if I were to suggest to you that  
7 that ownership was by virtue of owning 100 percent  
8 of the stock in those entities, would that be  
9 acceptable to you?

10 A. Yes, I think so. I think that's my  
11 whole point is that both entities are owned by a  
12 common entity and that no other entity owns parts  
13 of them.

14 Q. Are you aware that the formation of  
15 Moultrie MultiCorp and the reorganization of  
16 Moultrie Independent Telephone Company was subject  
17 to and approved by this Commission?

18 A. It's my understanding that  
19 reorganizations of this nature have been approved  
20 and that this reorganization in terms of the paper  
21 organization have been approved by the Commission,  
22 yes.

1           Q.     Thank you.

2                     Are you aware that the title, the  
3     ownership of the subject property, was, in fact,  
4     transferred and duly recorded as required by  
5     Illinois? Are you or are you not aware?

6           A.     I don't know if I have direct knowledge  
7     of it, but I'm sure it was legally transferred,  
8     yes.

9           Q.     Legally transferred.

10          A.     I'm sure of this.

11          Q.     Are you aware that good and valuable  
12     consideration, that is to say monetary payments,  
13     were actually made for the property?

14          A.     Well, yes. Moultrie Multi, the owner of  
15     Moultrie Independent Telephone, through Multi  
16     Moultrie Independent Telephone transferred assets  
17     to Moultrie InfoComm. In exchange, assets, cash,  
18     if you will, were transferred from Moultrie  
19     InfoComm back to Moultrie Independent Telephone.  
20     Yes, I'm aware of that.

21          Q.     Are you aware that the subject property  
22     and the use of it is shared among four corporate

1     entities and that payment for the use of that  
2     property is prorated among those four entities?

3           A.     It's my understanding that that's the  
4     case, yes.

5           Q.     Would you agree that a transfer of this  
6     nature might change the depreciation for tax  
7     purposes of these properties?

8           A.     It's my understanding that in this case  
9     depreciation was not changed; that there were no  
10    tax consequences.

11          Q.     That's your testimony.

12          A.     That's my testimony based on my  
13    knowledge of --

14          Q.     What about the obligations and the  
15    responsibility for maintenance? Might that change?

16           EXAMINER WOODS: You have to let him answer  
17    the question.

18           MR. IRWIN: I beg your pardon. I'm getting  
19    ahead of the reporter.

20           EXAMINER WOODS: Mr. Smith.

21          A.     Yeah. My knowledge is based on review  
22    of information supplied by the company.

1           Q.     And what about the responsibility for  
2 maintenance after the transfer of the property?  
3 Might that change?

4           A.     Well, certainly ultimately Moultrie  
5 MultiCorp has ultimate responsibility for the  
6 maintenance. Prior to transfer and subsequent to  
7 transfer they may well have determined that when  
8 the property was transferred, the responsibility  
9 for maintenance was also transferred.

10          Q.     Thank you.

11                 I'm going to ask you now, Mr. Smith, in  
12 view of having had the definitions of sham read to  
13 you from Black's Law Dictionary and from Webster's  
14 New Collegiate Dictionary and your answer to these  
15 questions, might you wish to change, recant your  
16 testimony respecting the transaction being a sham?

17          A.     I'm still comfortable with that term.  
18 The point being made is that prior to the transfer  
19 the ultimate owner of the assets in question is the  
20 same owner subsequent to the transfer.

21          Q.     And that's a sham in your mind.

22          A.     Depending on what the goal, yes.

1           Q.     Well, I must say and I proffer I'm  
2     offended by the use of that word sham because when  
3     I went to the dictionary, although I had an  
4     understanding, and I start seeing words like false  
5     and delusion and trick and cheap in fairness, I  
6     think that's a slur on my client, and that's why I  
7     ask you if at this point in time you don't care to  
8     recant your testimony.

9           A.     No. My --

10          MR. HARVEY: I think this is getting pretty  
11     argumentative.

12          EXAMINER WOODS: It's approaching argument,  
13     counsel. That question has been asked and  
14     answered.

15          Q.     Can you state for the record the formula  
16     or the methodology that's used for the computation  
17     of federal universal service support?

18          A.     No, I can't.

19          Q.     Would you agree, subject to check, that  
20     a major premise of the calculation of universal  
21     service support is that an ILEC owns rate base?

22          A.     I'm trying to get the acronym. That

1 would be an independent local exchange carrier?

2 Q. That's correct, sir.

3 MR. BRADY: Incumbent.

4 Q. Incumbent local exchange carrier.

5 A. Okay. And could I have the question  
6 read back, please?

7 (Whereupon the requested  
8 portion of the record was  
9 read back by the Court  
10 Reporter.)

11 MR. HARVEY: I'm going to have to ask, are we  
12 still talking about federal universal service  
13 support here, counsel?

14 MR. IRWIN: Yes, we are.

15 MR. HARVEY: Okay. I'm not sure that that's  
16 necessarily within the scope of Mr. Smith's  
17 testimony. He is testifying about state-based  
18 accounting transactions. You know, I'll ask for a  
19 ruling on that, although I realize counsel should  
20 have some latitude.

21 MR. IRWIN: I think it's a fair question. It  
22 goes to the witness's competence and credibility.

1           EXAMINER WOODS: You can answer.

2           THE WITNESS: Again, I'm going to ask for it  
3 to be read back, please.

4           EXAMINER WOODS: Okay.

5                               (Whereupon the requested  
6                               portion of the record was  
7                               read back by the Court  
8                               Reporter.)

9           A.     I would think whether or not an ILEC  
10 owned rate base would determine how the calculation  
11 is made, so I suppose that makes sense.

12          Q.     So basically subject to check, you would  
13 agree, and you have the opportunity to check.

14          A.     Yes, I'll agree.

15          Q.     Let's turn to Illinois universal service  
16 support. What basis do you use to calculate  
17 federal entitlements into the intrastate  
18 jurisdiction?

19          A.     I have no idea.

20          Q.     Generically, along the lines of revenue  
21 requirement, revenue requirement formula, Mr.  
22 Smith, isn't it a fact that federal universal

1 service support is intended to reduce local service  
2 rates that are not received by the state  
3 jurisdiction?

4 A. That might be a consequence. Whether  
5 it's an intent or not I don't know.

6 Q. And if there were no federal universal  
7 service support, would not the company be able to  
8 look to the state jurisdiction for universal  
9 service support?

10 A. I don't know.

11 Q. Are you aware, again, subject to check,  
12 that if Moultrie Independent Telephone Company  
13 prevails in its legal challenge before the FCC,  
14 that its intrastate requirement for Illinois  
15 universal service support falls to zero?

16 MR. HARVEY: I'm going to have to object to  
17 this. I think that this line of questioning is  
18 starting to really veer away from, again,  
19 Mr. Smith's accounting testimony about intrastate  
20 transactions.

21 EXAMINER WOODS: I agree. I just don't see  
22 what in his testimony it goes to. I think this is



1 more directed to the policy witness.

2 MR. IRWIN: Well, I will proffer for the  
3 record that that is a fact; that if Moultrie were  
4 to prevail before the Federal Communications  
5 Commission on its petition for declaratory ruling,  
6 that it would have no requirement, zero  
7 requirement, for Illinois USF funding, and we will  
8 cover that later through one of our witnesses, if I  
9 may.

10 EXAMINER WOODS: Okay.

11 MR. IRWIN: Mr. Examiner.

12 Last question, and I'm sure you're happy  
13 it's my last question.

14 Q. Mr. Smith, have you personally or to  
15 your knowledge anybody else on the Illinois  
16 Commerce Commission Staff or in the employ of the  
17 Illinois Commerce Commission had any communications  
18 with either the National Exchange Carrier  
19 Association or the Federal Communications  
20 Commission respecting Moultrie's pending petition  
21 for declaratory ruling?

22 A. I haven't personally had any

1 communication, and I wouldn't be in a position to  
2 know if others have or have not.

3 MR. IRWIN: Thank you, Mr. Smith. I have no  
4 further questions at this time.

5 EXAMINER WOODS: Mr. Fodor or Mr. Smith?

6 MR. SMITH: No.

7 MR. FODOR: No cross.

8 EXAMINER WOODS: Mr. Muncy?

9 MR. MUNCY: My only questions, I'm having his  
10 schedules looked at again, and I'll ask him back  
11 later if there's a question about the numbers on  
12 his schedules.

13 MR. HARVEY: If we might have a minute.

14 EXAMINER WOODS: Well, I just want to follow  
15 up a little bit.

16 EXAMINATION

17 BY EXAMINER WOODS:

18 Q. One thing you did say that kind of  
19 caught my attention, when you were being asked  
20 about the transaction that's in question, I thought  
21 you said that one of the things you looked at was  
22 the goal of the transaction in whether deciding to

1 disallow it or not. Is that what you said?

2 A. I don't recall saying goal. The  
3 disallowance, if you will, of the transaction was  
4 based on the results of the transaction, what  
5 occurred or what didn't occur. I mean I may have  
6 used the term goal loosely. I have no idea of what  
7 the goal was.

8 Q. That was my question, exactly how you  
9 figured out what the goal was and what you thought  
10 it was. So if that word shows up in the  
11 transcript, you probably didn't mean it. Is that  
12 right?

13 A. Not in the sense that you're using it,  
14 no.

15 EXAMINER WOODS: Thanks.

16 MR. HARVEY: Could we have a minute to  
17 determine whether we have any redirect,  
18 Mr. Examiner?

19 EXAMINER WOODS: Yes. As a matter of fact,  
20 why don't we take ten.

21 (Whereupon a ten-minute  
22 recess was taken, during

1                   which Verizon Exhibits 4.1,  
2                   4.2, and 4.3, Grafton  
3                   Telephone Exhibits 1, 3.0  
4                   Offer of Proof, and 4.0  
5                   Offer of Proof, Gridley  
6                   Telephone Exhibits 1, 3, and  
7                   8.0 Offer of Proof,  
8                   Harrisonville Telephone 1,  
9                   3.0 Offer of Proof, 4.0, and  
10                  5.0 Offer of Proof, Home  
11                  Telephone 1.0, 2.0, 3.0, 4.0  
12                  Offer of Proof, and 5.0  
13                  Offer of Proof, Metamora  
14                  Telephone Exhibit 1.0, and  
15                  Tonica Telephone Exhibit 1  
16                  were physically marked for  
17                  identification by the Court  
18                  Reporter.)

19           EXAMINER WOODS: Back on the record.

20           MR. HARVEY: We don't have any redirect.

21           EXAMINER WOODS: Thank you, Mr. Smith.

22                               (Witness excused.)

1                   Call your next witness.

2                   Off the record.

3                               (Whereupon ICC Staff  
4                               Exhibit 8.0 was marked for  
5                               identification.)

6           EXAMINER WOODS: Back on the record.

7                               ROCHELLE LANGFELDT  
8           called as a witness on behalf of the Staff of the  
9           Illinois Commerce Commission, having been first  
10          duly sworn, was examined and testified as follows:

11                               DIRECT EXAMINATION

12           BY MR. BRADY:

13           Q.     Good morning. Will you please introduce  
14          yourself to the hearing room?

15           THE WITNESS:

16           A.     Yes. My name is Rochelle Langfeldt, and  
17          I'm a Financial Analyst in the Finance Department  
18          of the Financial Analysis Division of the Illinois  
19          Commerce Commission.

20           Q.     Will you please spell your last name for  
21          the Court Reporter?

22           A.     L-A-N-G-F-E-L-D-T.

1           Q.     And you prepared testimony for this  
2 proceeding?

3           A.     Yes, I did.

4           Q.     And do you have that testimony before  
5 you?

6           A.     Yes.

7           Q.     And that is labeled Staff Exhibit 8.0?

8           A.     Yes.

9           Q.     And that is comprised of eight pages of  
10 testimony?

11          A.     Yes.

12          Q.     And this was created by you or under  
13 your direction?

14          A.     Yes, it was.

15          Q.     Are there any corrections to this  
16 document at this time?

17          A.     No, no corrections.

18          Q.     If I were to ask you the questions that  
19 are in this document, would you provide the same  
20 answers?

21          A.     Yes, I would.

22          MR. BRADY: At this time, Your Honor, we would

1 move to admit Staff Exhibit 8.0 into the record and  
2 tender Ms. Langfeldt for cross-examination.

3 EXAMINER WOODS: Without objection.

4 (Whereupon ICC Staff  
5 Exhibit 8.0 was received  
6 into evidence.)

7 EXAMINER WOODS: The witness is available for  
8 cross.

9 MR. SMITH: Thank you.

10 CROSS EXAMINATION

11 BY MR. SMITH:

12 Q. Ms. Langfeldt, I represent Leaf River in  
13 this proceeding.

14 You've made certain references to an  
15 agreed debt to equity ratio, an agreement between  
16 the Staff and the IITA. Let me ask you this; were  
17 you present in any of those negotiations?

18 A. No, I was not.

19 Q. You do not know if Leaf River -- strike  
20 that.

21 Is it your understanding that Leaf River  
22 Telephone Company was not directly involved in

1       those negotiations, or do you know?

2           A.     I don't know.

3           Q.     Calling your attention to page 4 of your  
4       testimony, Exhibit 8, do you have that in front of  
5       you?

6           A.     Yes, I do.

7           Q.     If you would look at your statement on  
8       lines 85 through 89 for a moment.

9                   Have you read that now?

10          A.     Yes.

11          Q.     And do you know what Leaf River's  
12       proposed debt to equity ratio is? 90 percent  
13       equity, 10 percent debt, approximately.

14          A.     Yes.

15          Q.     Is that correct?

16          A.     That's correct.

17          Q.     In your statement you indicate that if  
18       Leaf River were to be allowed to adjust its debt to  
19       equity ratio to its actual debt to equity ratio --  
20       strike that.

21                   If Leaf River were to adjust the  
22       hypothetical debt to equity ratio that you propose,



1 the 60 /40, as opposed to its actual 90 /10 percent  
2 ratio, you've indicated that it would no longer  
3 accurately reflect the risk in the capital  
4 structure you propose. Is that correct?

5 A. That's correct.

6 Q. What risk would it reflect?

7 A. I don't know what the required rate of  
8 return on equity would be for Leaf River if they  
9 use their actual capital structure, and that was my  
10 point; that Staff's recommended cost of equity, 15  
11 percent, is based on a capital structure of 60  
12 percent equity and 40 percent debt of capital. So  
13 the risk would be different. I don't know what the  
14 exact consequences would be on the cost of equity.

15 MR. SMITH: No further questions.

16 EXAMINER WOODS: Mr. Irwin? Mr. Fodor?

17 MR. FODOR: I don't believe I have any. If  
18 you can bear with me for one second, I can confirm  
19 that.

20 EXAMINER WOODS: Sure.

21 MR. FODOR: I do not have any.

22 EXAMINER WOODS: Mr. Irwin?

1 MR. IRWIN: I have a few.

2 CROSS EXAMINATION

3 BY MR. IRWIN:

4 Q. Good morning.

5 A. Good morning.

6 Q. Cost of capital varies commensurate with  
7 the size of a company. Is that correct?

8 A. Cost of capital varies with the risk,  
9 the risk of a company, yes.

10 Q. Do you believe that small companies are  
11 more risky or less risky than say a company the  
12 size of Verizon North and South?

13 MR. HARVEY: Could I ask for a clarification  
14 on this? Are we referring to small, independently  
15 owned incumbent local exchange carriers?

16 MR. IRWIN: Yes.

17 A. Overall I can't say whether or not small  
18 companies are riskier. I know that there are  
19 certain risks that are -- smaller companies are  
20 riskier in certain respects. For example,  
21 liquidity risk, that's a risk that is typically  
22 inherent in smaller companies.

1           Q.     Generally speaking, for the equity of  
2     these small, rural, independent telephone companies  
3     we're talking about, they generally tend to be  
4     family owned.  Is that correct?

5           A.     I don't know.

6           Q.     Small corporations, closed corporations?

7           A.     I don't know if they're family owned.

8           Q.     Well, if they're not family owned, might  
9     they be small, closed corporations where the stock  
10    is not traded publicly?

11          MR. BRADY:  Your Honor, I'm going to object.  
12    Her testimony really reflects what was going on  
13    with Leaf River and Home Tel.  She doesn't really  
14    address on the knowledge of ownership and stocks on  
15    small companies in general.

16          EXAMINER WOODS:  I think you need to be a  
17    little more specific.

18          MR. IRWIN:  I'll drop that line of  
19    examination.

20                 I just have one question respecting  
21    debt.

22          Q.     Assume for the sake of argument that a

1 rural independent telephone company had no rate  
2 base, had no assets. What would it secure debt  
3 with?

4 MR. BRADY: Do you have a specific company in  
5 mind or is this a hypothetical?

6 MR. IRWIN: This is a hypothetical.

7 Q. Or to put it another way, isn't it a  
8 general fact of commerce that in order to secure  
9 debt, you generally need assets, tangible assets to  
10 pledge against that debt?

11 A. I don't know. I've seen instances where  
12 that's the case, where it's written into the  
13 agreement that people pledge certain assets. I  
14 don't know if that's the case for every loan  
15 agreement.

16 Q. And if you had no assets, you'd have  
17 nothing to pledge. Is that correct?

18 A. That's correct.

19 MR. IRWIN: No further -- well, one further  
20 question.

21 Q. Ms. Langfeldt, have you or to your  
22 knowledge anybody else on the Illinois Commerce

1 Commission Staff or in the employ of the Illinois  
2 Commerce Commission had any communications or  
3 conversation with the staff of the Federal  
4 Communications Commission with respect to the  
5 pending petition for declaratory ruling of the  
6 Moultrie Independent Telephone Company?

7 A. I can only speak for myself, but I have  
8 not had any conversations about that.

9 MR. IRWIN: Thank you. Thank you for your  
10 time.

11 EXAMINER WOODS: Mr. Muncy?

12 MR. MUNCY: No.

13 EXAMINER WOODS: Redirect?

14 MR. HARVEY: No redirect.

15 EXAMINER WOODS: Thank you, ma'am.

16 (Witness excused.)

17 EXAMINER WOODS: Next witness.

18 MR. BRADY: Mr. Pregozen.

19 (Whereupon ICC Staff

20 Exhibits 5.0 and 13.0 were

21 marked for identification.)

22

1                   ALAN S. PREGOZEN  
2       called as a witness on behalf of the Staff of the  
3       Illinois Commerce Commission, having been first  
4       duly sworn, was examined and testified as follows:

5                   DIRECT EXAMINATION

6           BY MR. BRADY:

7           Q.     Good afternoon, sir.  Would you please  
8       introduce yourself to the hearing room?

9           THE WITNESS:

10          A.     My name is Alan Pregozen.  I'm the  
11       Manager of the Financial Department of the  
12       Financial Analysis Division of the Illinois  
13       Commerce Commission.

14          Q.     And did you provide testimony in this  
15       hearing?

16          A.     Yes, I did.

17          Q.     Before you you have two documents.  Is  
18       that correct?

19          A.     Yes.

20          Q.     Can you describe, is one of those  
21       Exhibits Staff Exhibit 5.0?

22          A.     Yes.

1           Q.     And that is comprised -- that is labeled  
2     your direct testimony and has six pages of written  
3     question and answer and one attached schedule,  
4     Schedule 5.1?

5           A.     Yes.

6           Q.     Was this created by you or under your  
7     direction?

8           A.     Yes, it was.

9           Q.     And are there any corrections to this  
10    document at this time?

11          A.     No.

12          Q.     If I were to ask you the questions in  
13    this document, would your answer be the same?

14          A.     Yes.

15          Q.     The second document you have is Staff  
16    Exhibit 13.0 labeled rebuttal testimony. Is that  
17    correct?

18          A.     Yes.

19          Q.     And that is comprised of six pages of  
20    questions and answers?

21          A.     Yes.

22          Q.     And this was created by you or under

1 your supervision?

2 A. It was.

3 Q. And are there corrections to this  
4 document?

5 A. Yes. I have two corrections. I believe  
6 on the copy that was distributed to the parties and  
7 originally filed on e-Docket, at the bottom  
8 left-hand corner of the cover page and page 1  
9 there's a reference to a draft and the date of May  
10 25, 2001. That reference should be stricken.

11 And then there's also a correction on  
12 page 6, line 87. Towards the end of the line there  
13 is a ", which". That should be stricken.

14 Those are all the corrections I have.

15 Q. I don't recall if I actually asked you  
16 this question already. If I asked you the  
17 questions that are in Staff Exhibit 13.0 today,  
18 would you provide the same answers?

19 A. Yes.

20 MR. BRADY: At this time, Your Honor, we move  
21 to enter Staff Exhibits 5.0 and 13.0 with  
22 attachments and tender the witness for



1 cross-examination.

2 EXAMINER WOODS: Without objection.

3 (Whereupon ICC Staff  
4 Exhibits 5.0 and 13.0 were  
5 received into evidence.)

6 EXAMINER WOODS: The witness is available for  
7 cross.

8 CROSS EXAMINATION

9 BY MR. SMITH:

10 Q. Mr. Pregozen, good morning. My name is  
11 Gary Smith. I have a few questions for you.

12 Would you turn to page 4 of your Staff  
13 Exhibit 5, please? In line 54 you make reference  
14 to Sundale Utilities, Inc. my question to you is  
15 what type of utility was involved in that  
16 proceeding?

17 A. Sundale is a water and sewer company.

18 Q. And are you familiar with the last rate  
19 case order of this Commission involving a small  
20 telephone company?

21 A. My recollection is the last such rate  
22 case was probably -- probably involved Leaf River

1 at least a decade ago.

2 Q. Were you involved in the Yates City  
3 proceeding?

4 A. Oh, that's correct. I forgot that one.  
5 I was not involved in that directly, no.

6 Q. Would Yates City be the most recent one?

7 A. I believe so.

8 Q. Did you use that or consult that  
9 Commission order in your calculations for Exhibits  
10 5 and 13?

11 A. No.

12 Q. Was your role in this proceeding limited  
13 to matters involving the cost of capital as  
14 reflected in your Exhibits 5 and 13?

15 A. Yes.

16 Q. If you would, please, turn -- no, you  
17 don't even need to turn to it. You indicate in  
18 Exhibit 13, page 2, that you rejected  
19 Mr. Petrouske's proposed cost of debt, and I take  
20 it that your reason is because it was an embedded  
21 cost. Is that correct?

22 A. Yes.

1           Q.     And by embedded cost do you mean that's  
2     the actual cost of Leaf River Telephone Company?

3           A.     At least as Mr. Petrouske represented  
4     it.

5           Q.     And then you make reference to a 9  
6     percent agreement. Leaf River wasn't part of that  
7     agreement, was it?

8           A.     Not to my knowledge.

9           MR. SMITH: No further questions.

10          EXAMINER WOODS: Mr. Fodor.

11          MR. FODOR: If I could have just a little bit  
12     of follow-up on what Mr. Smith was asking you  
13     about.

14                                   CROSS EXAMINATION

15          BY MR. FODOR:

16          Q.     I believe you said when you identified  
17     your testimony that you were the manager of the  
18     department that you work for?

19          A.     Yes.

20          Q.     Okay. Were you the manager in '93?

21          A.     1993?

22          Q.     Yes, 1993.

1           A.     No.

2           Q.     Okay. Mr. Smith asked you about the  
3     Yates City rate case. Would you have had any  
4     managerial duties in connection with that case?

5           A.     No.

6           Q.     Okay.

7                     Sir, I want to ask you a question about  
8     your interest rate, and specifically I want to ask  
9     about the term effective interest rate, and if it's  
10    objectionable to counsel, I was going to refer to  
11    the testimony by Mr. Rungren in that Yates City  
12    rate case. I don't think this is a controversial  
13    line of questioning. I'm just looking for some  
14    clarification. Any objection?

15           MR. HARVEY: Not at this point. We'll chime  
16    in if we have one, Troy.

17           MR. FODOR: Yeah. Okay.

18           Q.     I believe in your direct and rebuttal  
19    testimony you're supporting a 9 percent rate for  
20    debt.

21           A.     That's correct.

22           Q.     And I believe that your use of the

1     9 percent is based on your understanding of what  
2     the current rates are from the Rural Telephone  
3     Finance Cooperative?

4           A.     Yes.

5           Q.     Okay.  If I told you that in the Yates  
6     City case the debt that was involved in that case  
7     was from the Rural Telephone Finance Cooperative  
8     and I gave you the docket number, could you accept  
9     that for this discussion, subject to check?

10          A.     Yes.

11          Q.     Okay.  If I also told you that in that  
12     case the then current rate from RTFC -- RTFC is an  
13     acronym for Rural Telephone Finance Cooperative --  
14     was 9.5 percent, again, the docket number being  
15     90-0304, and if you'd like I can hand you the copy  
16     that I'm working from, and I can show it to your  
17     attorney.

18           MR. HARVEY:  I think we'll let you proceed,  
19     Mr. Fodor.

20           MR. FODOR:  Okay.

21           A.     Would you read the docket number again,  
22     please?

1 Q. I'm sorry. It's 90-0304.

2 A. Thank you.

3 Q. So subject to check, you would accept  
4 that that was the then current rate.

5 A. You said 9.5 percent.

6 Q. Yes, 9.50.

7 A. Yes, I will.

8 Q. Do you understand the lending practices  
9 of RTFC?

10 A. Insofar as one can understand the  
11 lending practices of any entity, I believe so.

12 Q. Do you understand the requirement to  
13 purchase -- I may get this term incorrect --  
14 capital subscription certificates?

15 A. Yes.

16 Q. Okay. And if you factor in the  
17 requirement to purchase those capital subscription  
18 certificates, would the effective interest rate be  
19 higher than 9 percent?

20 A. It would probably be slightly higher.

21 Q. If I told you that in the Yates City  
22 order it went from 9.5 percent to 19.87 percent,

1 would that surprise you?

2 A. Yes, it would.

3 MR. FODOR: Do you mind if I show him the  
4 order? Show you the order?

5 MR. HARVEY: I think he just said he's  
6 surprised that it says that.

7 MR. FODOR: Okay.

8 MR. HARVEY: I don't think he questions the  
9 bona fides of that.

10 MR. FODOR: Okay. Then I won't come hand you  
11 the order.

12 Q. The question I really want to get to,  
13 there is some level of interpretation with respect  
14 to even the debt numbers that you're using, is  
15 there not?

16 A. It depends on which part of the funding  
17 analysis we're talking about. My understanding is  
18 that the revenue requirements analysis includes the  
19 capital funding certificates in rate base, and in  
20 that case the cost of those certificates should not  
21 be included in the cost of debt. That would be  
22 double counting. I do not know how they're handled

1 for the economic cost test.

2 MR. FODOR: And I would just point out for the  
3 record that if anybody wants to look at the order,  
4 it was entered October '93, Docket 90-0304.

5 EXAMINER WOODS: What was the date?

6 MR. FODOR: October 14, 1993.

7 EXAMINER WOODS: Okay.

8 MR. FODOR: And, in fact, the Commission  
9 rejected an argument by Yates City to treat the  
10 capital subscription certificates like they would  
11 treat Class B stock for an RTB loan.

12 MR. HARVEY: I think counsel can make this  
13 argument --

14 MR. FODOR: No, it's not an argument. That's  
15 it. I have no further questions.

16 EXAMINER WOODS: Okay. Mr. Irwin.

17 CROSS EXAMINATION

18 BY MR. IRWIN:

19 Q. Briefly, Mr. Pregozen, in the type of  
20 instances that Mr. Fodor was talking about where a  
21 rural independent incumbent local exchange carrier  
22 is seeking financing, debt financing from the likes



1 of a RTFC or co-bank or a rural utility service,  
2 the basic premise is that the assets of the  
3 enterprise are pledged against the debt. Is that  
4 not correct?

5 A. Those are often the terms of the loan.  
6 I think it depends on the nature of the loan.

7 Q. Generally speaking, if you don't have  
8 assets to pledge, the debt placement would be more  
9 risky, would it not?

10 A. Yes.

11 Q. And therefore the cost of debt would go  
12 up.

13 A. Yes.

14 Q. So if you had a company that had no  
15 assets that it physically owned, then it would have  
16 difficulty -- it might have more difficulty in  
17 securing debt. Is that not correct?

18 A. It is possible.

19 Q. I have one more question, Mr. Pregozen.  
20 I'm probably butchering your name. I apologize.

21 Have either you or any other Illinois  
22 Commerce Commission staffer or any other employee

1 of the Illinois Commerce Commission had any  
2 communications with the Federal Communications  
3 Commission respecting the petition for declaratory  
4 ruling pending on behalf of Moultrie Independent  
5 Telephone Company?

6 A. I have neither had any such  
7 conversations nor am I aware of any.

8 MR. IRWIN: Thank you.

9 EXAMINER WOODS: Okay. Redirect?

10 MR. BRADY: We have no redirect, Your Honor.

11 EXAMINER WOODS: Okay. Thank you,  
12 Mr. Pregozen.

13 (Witness excused.)

14 MR. HARVEY: Dr. Staranczak.

15 EXAMINER WOODS: Let's go off the record.

16 (Whereupon at this point in  
17 the proceedings an  
18 off-the-record discussion  
19 transpired, during which ICC  
20 Staff Exhibits 3.0 and 9.0  
21 were marked for  
22 identification.)

1 EXAMINER WOODS: Doctor, were you sworn?

2 DR. STARANCZAK: No.

3 EXAMINER WOODS: Okay. Would you please stand  
4 and raise your right hand.

5 (Whereupon the witness was  
6 sworn by Examiner Woods.)

7 EXAMINER WOODS: Thank you. Be seated.

8 GENIO STARANCZAK

9 called as a witness on behalf of the Staff of the  
10 Illinois Commerce Commission, having been first  
11 duly sworn, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. HARVEY:

14 Q. Dr. Staranczak, could you state your  
15 name and please spell both your Christian and  
16 surnames for the record?

17 THE WITNESS:

18 A. My name is Genio Staranczak, G-E-N-I-O,  
19 Staranczak, S-T-A-R-A-N-C-Z-A-K.

20 Q. Do you have before you two documents,  
21 one marked for identification as ICC Staff Exhibit  
22 3.0 and the other as ICC Staff Exhibit Number 9.0?

1           A.     Yes, I do.

2           Q.     Turning your attention to ICC Staff  
3     Exhibit Number 3.0, was that prepared by you or at  
4     your direction?

5           A.     Yes, it was.

6           Q.     Does that consist of 16 pages of text in  
7     question and answer format and two attached  
8     schedules?

9           A.     Yes, it does.

10          Q.     Is that your direct testimony in this  
11     proceeding?

12          A.     Yes, it is.

13          Q.     Do you have any corrections or additions  
14     to make to that testimony?

15          A.     No, I don't.

16          Q.     If I were to ask you the questions  
17     contained in Staff Exhibit Number 3.0, would your  
18     answers be the same as those set forth therein?

19          A.     Yes, they would.

20          Q.     Okay. Thank you very much.

21                 Turning your attention to Staff Exhibit  
22     Number 9.0, is that your rebuttal testimony in this

1 proceeding?

2 A. Yes, it is.

3 Q. Was it prepared by you?

4 A. Yes, it was.

5 Q. Does it consist of seven pages of text  
6 in question and answer form?

7 A. Yes, it does.

8 Q. Do you have any additions or corrections  
9 to make to that document?

10 A. No, I don't.

11 Q. If I were to ask you the questions  
12 contained in Staff Exhibit Number 9.0 today, would  
13 your answers be the same as those set forth in  
14 Staff Exhibit 9.0?

15 A. Yes, they would.

16 MR. HARVEY: I move for admission into  
17 evidence of Staff Exhibit Numbers 3.0 and 9.0 and  
18 tender the witness for cross.

19 EXAMINER WOODS: The documents are admitted  
20 without objection.

21 (Whereupon ICC Staff  
22 Exhibits 3.0 and 9.0 were

1 received into evidence.)

2 EXAMINER WOODS: The witness is available for  
3 cross. Mr. Rooney.

4 CROSS EXAMINATION

5 BY MR. ROONEY:

6 Q. Good morning. I have one brief,  
7 clarifying question, just to understand your  
8 testimony with respect to affordable rate.

9 Am I to understand your testimony with  
10 respect to having one rate being applied -- and I'm  
11 going to characterize it, and I want you to correct  
12 me if I'm wrong, and I want you to agree with me if  
13 I'm right in my characterization. Is it your  
14 testimony that your proposing one affordable rate  
15 to be applied across the state is a way to ensure  
16 against discrimination between different areas of  
17 the state?

18 A. It's a way to ensure horizontal equity  
19 that subscribers in similar exchanges should be  
20 treated similarly. So if you have -- that's the  
21 rationale behind it. I don't propose one  
22 affordable rate. There is legislation that

1 suggests the affordable rate cannot be lower than  
2 it currently is, and so some companies will have  
3 higher affordable rates because of the legislation.

4 MR. ROONEY: Okay. Thank you. That's it.

5 EXAMINER WOODS: Mr. Smith.

6 CROSS EXAMINATION

7 BY MR. SMITH:

8 Q. I guess we're in the afternoon. Good  
9 afternoon.

10 A. Good afternoon.

11 Q. In your analysis, did you determine or  
12 did you consult with any studies to see what the  
13 penetration rate is for local exchange service in  
14 Illinois?

15 A. I looked at the overall penetration rate  
16 in Illinois. I looked at other states, rural  
17 states such as Wyoming. Did I look at it on an  
18 accounting by accounting basis in Illinois? No.  
19 I'm not sure that that exists.

20 Q. How did the State of Illinois compare  
21 nationally on the penetration rate?

22 A. Based on my recollection, it was lower

1       than the national average.

2           Q.       Was it one of the lowest in the country?

3           A.       It was lower.  Whether it's one of the  
4       lowest would depend on your definition, but it was  
5       lower than the national average.

6           Q.       Your proposed affordable rate, that does  
7       not include any 9-1-1 surcharges, does it?

8           A.       The rate, the \$24 I proposed, does not  
9       include 9-1-1 surcharges.  I do say that the total  
10       bill should be above \$30.

11          Q.       All right.  Do you know what the 9-1-1  
12       charges usually are?

13          A.       They vary.  I looked at the data;  
14       something like a dollar and a quarter, sometimes up  
15       to \$2 or more.

16          Q.       Does it include -- does your proposal  
17       include a touch-tone rate?

18          A.       The \$24 affordable rate includes all  
19       charges for touch-tone.  That's correct.

20          Q.       All right.  Does it include federal  
21       subscriber line charge?

22          A.       The \$24 affordable rate I proposed does



1 not include subscriber line charge, but, again, as  
2 I said before, the total bill should be about \$30.

3 Q. What is the federal subscriber line  
4 charge?

5 A. It varies. For these companies I  
6 believe it's 3.50.

7 Q. Your proposal does not include taxes,  
8 does it?

9 A. The affordable rate doesn't include  
10 taxes, no.

11 Q. Do you have any idea of what the  
12 percentage for taxes would be in a range?

13 A. There is data for state taxes. There is  
14 data for federal taxes. Local taxes, that would  
15 depend on municipalities, so it would be a range.  
16 How wide that range is I am not aware.

17 Q. Well, let's see. You've got \$24, a  
18 dollar and a quarter; you've got 3.50. You're at  
19 what? 29 then?

20 A. I'll assume your math is correct.

21 Q. No. Yeah. So you don't have any  
22 estimate for what the tax rate would be or what the

1 variable amounts of taxing might be from high to  
2 low.

3 A. For local municipalities. I mean we  
4 do know what the Illinois tax rate is, what the  
5 federal tax rate is, but I have no knowledge of  
6 what the individual municipality tax rates are.

7 Q. Do you know what the state tax rate is?

8 A. Approximately 7 percent.

9 Q. And the federal rate?

10 A. Three percent, to the best of my  
11 recollection.

12 Q. So that's 10 right there.

13 A. That's correct.

14 Q. So if you add 10 percent on top of \$29,  
15 you're over 30.

16 A. You're at 32. It's still within the  
17 range.

18 Q. Oh, I thought you were shooting at 30.

19 A. I said about 30. About 30 means 25 to  
20 35.

21 (Laughter)

22 Q. Well, that's about a 40 percent swing

1       there, isn't it?

2           A.     I'm an economist. I'm not an  
3       accountant. That is a very precise estimate for an  
4       economist; as precise as you're likely to ever get.

5           Q.     If we were to look at the overall impact  
6       of these additional charges, the 9-1-1, the taxes,  
7       the subscriber line charge, and came in with a  
8       total rate between those numbers, you would find  
9       that to be reasonable?

10          A.     No. I'd find it to be low. I mean the  
11       rate I recommend for the affordable rate is \$24.

12          Q.     Okay.

13                 In your review of the study that had the  
14       Illinois local exchange penetration rate for  
15       telephone service, did you find any reason why  
16       Illinois was lower than average?

17          A.     No. I mean Illinois tends to have lower  
18       rates than average, certainly lower than Wyoming  
19       which has the 95 percent penetration rate. It has  
20       much higher rates than Illinois. Wyoming has  
21       income comparable to rural counties in Illinois,  
22       lower than the Illinois average, and it has the

1 highest penetration rate.

2                   Based on my previous work in this area,  
3 I concluded that the penetration rate depends on  
4 your long distance. People disconnect their phone  
5 because they have unmanageably high long distance  
6 bills. It also depends on credit policies. The  
7 stricter the credit policy, the lower the  
8 penetration rate. I found those to be much more  
9 important than price.

10           Q.     The geography of Illinois is much  
11 different than what did you say? Was it Colorado?

12           A.     Wyoming.

13           Q.     Wyoming?

14           A.     Yes. It's much flatter and fewer  
15 mountains.

16           Q.     You mentioned the national average.  
17 What is the national average?

18           A.     For penetration?

19           Q.     No, for the affordable -- the national  
20 average rate. I believe that's what you were  
21 referring to in your answer.

22           A.     The national -- I thought I was talking

1 about the penetration rate.

2 Q. Oh, the penetration rate?

3 A. Right.

4 Q. What about in terms of cost of local  
5 exchange service?

6 A. Do you mean cost or price?

7 Q. Price.

8 A. Illinois tended to be, based on the data  
9 I've seen, lower than the national average.

10 Q. That's what I thought you said. What is  
11 the national average for that?

12 A. My guess would be around \$18, \$20,  
13 something like that.

14 Q. What was your source document?

15 A. I looked at FCC reports.

16 Q. Okay. It was an FCC study?

17 A. It was probably an FCC listing of rates.  
18 I think I have one in my schedule.

19 Q. Oh, in your schedule?

20 A. Right. Schedule 3.01 I list various  
21 rates.

22 Q. When you indicate that the national

1 average was something around -- was it 18?

2 A. 18 to 20. I actually calculated it. I  
3 just can't remember what it is.

4 Q. And you said that the Illinois price  
5 tended to be lower than that?

6 A. Yes.

7 Q. And that's all phone companies in  
8 Illinois averaged out?

9 A. It was basically the larger phone  
10 companies in Illinois averaged out, larger meaning  
11 specifically Ameritech.

12 Q. Okay.

13 I think you identified in your testimony  
14 an FCC study.

15 A. Which FCC study?

16 Q. Well, that's what I'm trying to  
17 determine. Do you recall which FCC study you --

18 A. I don't recall referring to any FCC  
19 study. The Schedule 3.01 is based on an FCC  
20 document, reference book.

21 Q. Does that reference book include some of  
22 these national averages you're talking about?

1           A.     It may. I just don't recall at this  
2 point.

3           MR. SMITH: Okay. No further questions.

4           EXAMINER WOODS: Mr. Irwin?

5           MR. IRWIN: Sure.

6                               CROSS EXAMINATION

7           BY MR. IRWIN:

8           Q.     Dr. Staranczak, my understanding is that  
9 you are proposing two affordable rates, one for  
10 residential and one for business?

11          A.     That's correct.

12          Q.     And you're proposing a \$24 affordable  
13 rate for residential, a \$27 affordable rate for  
14 business?

15          A.     That is correct.

16          Q.     Can you explain to us why there are  
17 different affordable rates for residential service  
18 and business service?

19          A.     I live in Springfield. The business  
20 rate in Springfield is higher than the residential  
21 rate in Springfield for access. I think that's  
22 typical of Ameritech territory. My gut feeling in

1 terms of affordability is that business can afford  
2 a higher rate than residence.

3 Q. Are the costs of providing business  
4 service greater or lesser than the costs of  
5 providing residential service for rural independent  
6 telephone companies, if you know?

7 A. I don't know whether the costs are any  
8 different. This is not a cost question. This is a  
9 how much you can afford question.

10 Q. Let's talk about that a little bit, if I  
11 might.

12 You would agree if a rate became  
13 unaffordable, it's possible that a subscriber might  
14 choose not to be on the network.

15 A. That's correct.

16 Q. You would also agree, would you not,  
17 that as rates go up, a subscriber might be prone to  
18 look at competitive alternatives?

19 A. It's possible.

20 Q. Would you agree that in the post 1996  
21 Telecommunications Act, that by and large there are  
22 no barriers? As a matter of fact, I'll modify



1     that; that there are no barriers to competitive  
2     entry?  Regulatory barriers.

3           A.     Regulatory and legal barriers.  There  
4     might be a lot of practical barriers, but I'll  
5     assume that's correct; there are no legal barriers.

6           Q.     Would you agree that cellular telephone  
7     is a competitive alternative to a local exchange  
8     telephone company?

9           A.     Yes, it is.

10          Q.     Would you agree that personal  
11     communication service is a competitive alternative  
12     to a local exchange telephone company?

13          A.     Quite possibly, yes.

14          Q.     Would you agree that multi-point, multi-  
15     distribution systems, MMDS, and local multi-point  
16     distribution system wireless services are a  
17     competitive alternative to a local exchange  
18     telephone --

19          MR. HARVEY:  I think we're getting pretty far  
20     afield here.

21          MR. IRWIN:  I have a little more.  When I  
22     tried to ask this of the other witness, you told me

1       this was my man. I have another 30 seconds.

2               MR. HARVEY: All right. Go ahead. I'll  
3       withdraw that.

4               MR. IRWIN:

5               Q.     Would you agree that Internet voice and  
6       data services is a competitive alternative?

7               A.     Possibly.

8               Q.     CLECs and DLECs?

9               A.     Possibly.

10              Q.     Wireless CLECs?

11              A.     Possibly.

12              Q.     And foreign exchange carrier service  
13     provided by other carriers?

14              A.     Possibly.

15              Q.     Lastly, Dr. Staranczak, --

16              A.     Just can I just put things in  
17     perspective? These may be competitors, but that's  
18     not the point of the Universal Service Fund. It's  
19     to keep the rates affordable for low income  
20     subscribers, and if these competitors keep the  
21     rates affordable, they're doing their job. The  
22     purpose of this fund is not to ensure rates of

1 return for the independent companies. It's to  
2 ensure subscribers get affordable rates. So I'd  
3 say they're doing their job if they make the rates  
4 more affordable. I certainly would encourage that  
5 kind of competition.

6 Q. Dr. Staranczak, last question. Have you  
7 personally or to your knowledge anybody that is on  
8 the Illinois Commerce Commission Staff or in the  
9 employ of the Illinois Commerce Commission had any  
10 communication with the Federal Communications  
11 Commission regarding the pending petition for  
12 declaratory ruling of the Moultrie Independent  
13 Telephone Company?

14 A. I have had no contact with the FCC on  
15 that issue. I cannot say whether any other Staff  
16 member has or not.

17 MR. IRWIN: Thank you very much.

18 EXAMINER WOODS: Mr. Muncy.

19 MR. MUNCY: Yes.

20 CROSS EXAMINATION

21 BY MR. MUNCY:

22 Q. Doctor, in the Commission making its

1 judgments concerning what an affordable rate is,  
2 Mr. Smith has asked you about traditional charges.  
3 I assume you recognize that the Commission in  
4 applying their judgment as to what an affordable  
5 rate is should take into account the total bottom  
6 line on the bill that the customer ends up paying.

7 A. Yes. This should be one factor that  
8 they look at. Yes, I agree.

9 Q. On Mr. Schoonmaker's rebuttal testimony,  
10 and I'll hand you a copy, he had an IITA Exhibit 4,  
11 Attachment 8. He shows on there the additional  
12 costs which are added on to the various companies'  
13 bills and indicates that the numerical average on  
14 that exhibit of additional charges, such as those  
15 enumerated by Mr. Smith, are, on average, \$7.56 per  
16 month. Is that a number that you think would be  
17 useful for the Commission to take into account in  
18 understanding what the total price would be?

19 A. I certainly do, and I must note that  
20 Verizon customers in similar areas also pay those  
21 surcharges.

22 Q. And did you examine Mr. Hoops' testimony

1     for Harrisonville Telephone Company?

2             A.     I looked at Mr. Hoops' testimony.

3     That's correct.

4             Q.     And Mr. Schoonmaker in his rebuttal  
5     refers to some of that, and I've now managed to  
6     lose my page.

7                     Mr. Hoops cited in his testimony, which  
8     Mr. Schoonmaker then refers to at page 38 of his  
9     rebuttal testimony, a national urban average rate  
10    of \$19.87. Did you --

11            A.     I don't recall that, but I'll assume  
12    that's correct.

13            Q.     And that \$19.87, as Mr. Schoonmaker  
14    indicates at lines 849 through 851, included all  
15    charges for local service such as state and federal  
16    charges, taxes, etc. will you accept that?

17            A.     I'll assume for the purposes of this  
18    question that's correct.

19            Q.     So the national average rate then,  
20    taking off those taxes -- or using the national  
21    rate of 19.87 and deducting off Mr. Schoonmaker's  
22    average for Illinois of additional charges of some

1     \$7.50, would indicate that the real basic rate  
2     would be down in the \$13 range.

3           A.     If you accept all those figures, I  
4     assume the mathematics would lead to \$13. I'm not  
5     sure where you got those figures from.

6           Q.     Okay. Mr. Hoops indicated in his  
7     testimony that those figures were from FCC sources.

8           A.     That's useful, but exactly how he  
9     calculated it I'm not sure.

10          Q.     Your ultimate recommendation of the \$24  
11     is based on your option 3, is that correct, which  
12     you discuss at page 11 of your direct testimony?

13          A.     My ultimate recommendation is based on  
14     what judgmentally I feel a low income household  
15     could afford. The calculation in option 3 was one  
16     element that led me to that judgment.

17          Q.     And in your option 3 you determined that  
18     the average urban wage earning household in the  
19     United States spends approximately -- spends  
20     approximately 1.2 percent of income on local  
21     telephone charges. Is that correct?

22          A.     Yes. That's a government figure. It's

1 not my own.

2 Q. And you chose to double that percentage.

3 A. Yeah, just -- yes, I did.

4 Q. And you indicate on lines 241 and 242  
5 that the exact percentage chosen is arbitrary.

6 A. Yes, I do. Yes, I did.

7 Q. And in your option 2, which, again, I'm  
8 looking at page 11 of your direct testimony, you're  
9 talking about an Ameritech Band C rate of \$13 as a  
10 benchmark. Is that correct?

11 A. Yes.

12 Q. And to the extent that you used that  
13 rate, you just doubled it to \$26. Is that correct?

14 A. Yes. For purposes of illustration,  
15 that's what I did.

16 Q. And, once again, on lines 226 and 227,  
17 you acknowledge that the exact percent which you  
18 used applied to the Ameritech number is arbitrary.

19 A. That's correct. I formulated those  
20 calculations for illustrative purposes.

21 Q. Once again, I'm going to show you  
22 Mr. Schoonmaker's rebuttal testimony and his

1 Attachment Number 7. That indicates, with the  
2 impact of your proposed affordable rate, your  
3 affordable rate proposal, and Staff witness Hoagg's  
4 other proposals concerning the use of the HAI  
5 documents, that the companies would not obtain  
6 support, and if they were to get back to even  
7 economically, they would have to increase rates,  
8 such as for Grafton the full effect of that would  
9 be \$39.01, and I won't read all of the numbers that  
10 are on the exhibit, but it has end user rates as  
11 high as \$79.21. My question to you is, using your  
12 expertise, is that an affordable rate?

13 A. With respect to the HAI results, I think  
14 you would have to talk to Mr. Hoagg or a Staff  
15 witness.

16 Q. I'm not asking you that, Doctor. I'm  
17 asking you whether \$79.21 is an affordable rate.

18 A. The question is imprecise. Should  
19 subscribers pay -- what was the figure that you --

20 Q. \$79.21.

21 A. Should subscribers --

22 Q. For basic service.



1           A.       -- pay \$79? No. Should the company  
2       through subsidies and through prices that it  
3       charges get \$79? That's a different question.

4           Q.       So the customer should not be in a  
5       position where -- well, I want to ask you my  
6       question again. Is \$79.21 an affordable rate?

7           A.       No.

8           MR. MUNCY: Okay. Those are all the questions  
9       I have. Thank you, Doctor.

10          EXAMINER WOODS: Well, I'm interested in the  
11       answer to the other question that you asked;  
12       whether the company should through subsidies and  
13       other means receive \$79.

14          THE WITNESS: Let me just rephrase it. What  
15       we want -- we don't want to subsidize inefficient  
16       companies. If the companies' costs are more than  
17       one would normally expect their costs to be, the  
18       companies should not be able to get that money from  
19       subscribers in terms of higher rates, or, two, from  
20       subsidies from other Illinois taxpayers or  
21       subscribers. They should eat it in their rate of  
22       return.

1 EXAMINER WOODS: Mr. Smith.

2 CROSS EXAMINATION

3 BY MR. SMITH:

4 Q. Is it your understanding that the costs  
5 of providing local exchange service in the rural  
6 areas is higher than it is in the urban area?

7 A. My understanding would be -- it's tough  
8 to generalize, but I would say on average it would  
9 tend to be higher.

10 Q. And by the term efficient, do you mean  
11 that a company is profitable?

12 A. No. By efficient I mean it's providing  
13 at the lowest cost it can provide. It doesn't have  
14 a Lear jet. It doesn't have an office in downtown  
15 Chicago with a view of the river.

16 Q. Is it efficient if its costs without  
17 doing those things still exceed its revenues? Is  
18 it still efficient?

19 A. The question had a lot of complications,  
20 and I think you would have to make it more precise  
21 for me to answer it.

22 Q. Well, what did you mean by the term

1 inefficient a moment ago?

2 A. That it has higher costs than it should.  
3 What would reasonable people think the costs should  
4 be? Either you can use an HAI model, you can use  
5 judgment, but I used that example. Suppose the  
6 company had a Lear jet, and they're charging off  
7 this Lear jet through the cost -- the costs of this  
8 Lear jet to their subscribers in term of high  
9 rates. I would say that was an inefficient  
10 company.

11 Q. Okay. So efficiency is a matter of  
12 judgment and which reasonable people can disagree.

13 A. Yes.

14 Q. A moment ago I was trying to find your  
15 reference to an FCC source, and I've looked now and  
16 I've found your Exhibit 3.1, and at the end you  
17 reference an FCC reference book in June of '99. Is  
18 that what you used to prepare Exhibit 3.1?

19 A. Yes, it is.

20 Q. And would that reference have some of  
21 the national averages for penetration rate and  
22 local rates reflected in it?

1           A.     I remember coming across material on  
2     penetration rates.  Whether it's in the same  
3     document I don't know, but I do know the FCC does  
4     provide information on penetration rates, state and  
5     national average.

6           Q.     And as indicated by your Schedule 3.01,  
7     the study makes some reference of residential  
8     telephone rates throughout the country.

9           A.     They had sample rates of various cities  
10    throughout the country.  That's correct.

11          Q.     Mr. Muncy awhile ago asked you about the  
12    \$79.21 and whether or not that was an affordable  
13    rate.  You indicated it was not.

14          A.     What I'm saying is subscriber --

15          Q.     No, no, no.  I understood.

16          A.     Excuse me.

17          Q.     My question is, is anything beyond the  
18    \$35 area that you touched on a moment ago as a  
19    total cost to the customer the maximum affordable  
20    rate that you would find acceptable?

21          A.     I personally would not like to see  
22    anything more than \$35, but I point out Wyoming

1     where the affordable rate when you include all  
2     these surcharges would be well over 35, probably  
3     well over 45. It's a rural state. Income varies  
4     similar to rural counties in Illinois. So  
5     judgments about the affordable rate can differ. I  
6     personally would not like to see them anything more  
7     than about \$35.

8             Q.     That's total cost.

9             A.     That's correct.

10            MR. SMITH: That's all.

11            EXAMINER WOODS: Mr. Rooney.

12            MR. ROONEY: Just another clarifying question,  
13     and I apologize, but I want to make clear.

14                               CROSS EXAMINATION

15            BY MR. ROONEY:

16            Q.     When you testified to this \$35  
17     affordable rate as your maximum, does that include  
18     -- strike that. Let me start again.

19                       As I understand, your goal is to set a  
20     rate so that low income customers will still take  
21     service. Is that correct?

22            A.     That would be affordable to low income

1 households. That's correct.

2 Q. Would those be low income households  
3 that are eligible for Life-Line compensation?

4 A. No. You would have to have higher  
5 income of that. If you're eligible for Life-Line,  
6 the net affordable rate, net of the subsidy, would  
7 be lower than \$35.

8 Q. Right, and that's precisely my question.  
9 So it's not necessarily those customers. It's  
10 customers who are above Life-Line?

11 A. Yes.

12 MR. ROONEY: Okay. Thank you.

13 EXAMINER WOODS: Mr. Fodor.

14 MR. FODOR: Thank you.

15 MR. HARVEY: Is this based on the one question  
16 you asked, Examiner Woods?

17 MR. FODOR: No. I've never had a chance yet.

18 MR. HARVEY: Oh, I'm sorry.

19 MR. FODOR: I got skipped.

20 CROSS EXAMINATION

21 BY MR. FODOR:

22 Q. Dr. Staranczak, I have a few follow-ups

1 on what everybody else did before we got to the  
2 second round here, and then I had a few questions  
3 based on your written testimony.

4 A. Okay.

5 Q. Leading back to a question that  
6 Mr. Irwin was asking you and you responded about  
7 competitors, wireless and others, I'd like to focus  
8 on wireless. Do you know, sir, whether the  
9 services provided by wireless carriers satisfy the  
10 FCC's list of services that qualify for universal  
11 service support?

12 A. I haven't examined that.

13 Q. Okay. That's a fair response.

14 In response to some questions from  
15 Mr. Smith, you indicated your range is now 25 to  
16 35?

17 A. Well, I had mentioned the range of about  
18 \$35. I also indicated I'm an economist. \$30 to an  
19 economist means different things than \$30 to an  
20 accountant.

21 Q. And that's nice for us to know for  
22 purposes of this proceeding, but in your testimony

1 on page 6, and I believe it's the rebuttal  
2 testimony, page 6, line 113, you suggested a  
3 maximum affordable rate of \$34.

4 A. \$34 excluding all these --

5 Q. I don't know.

6 MR. HARVEY: I'll object to that  
7 characterization. Maximum of \$34 established by  
8 the Wyoming USF. I don't know whether that  
9 constitutes a recommendation of any sort.

10 MR. FODOR: Well, you're looking at a  
11 different line than I am. I think we all need to  
12 --

13 THE WITNESS: Well, perhaps you can --

14 EXAMINER WOODS: Well, we can only speak one  
15 at a time, first of all.

16 MR. FODOR: If we can all turn to page 6, line  
17 113, I'll reask my question with a direct quote.

18 EXAMINER WOODS: Okay.

19 A. This is in the direct, sir?

20 MR. HARVEY: No; 112 and 113 on 6 of your  
21 rebuttal.

22 A. 113. I'm sorry. Could you read the



1 exact line?

2 Q. I will, as soon as I find it. Can you  
3 help me? Will you tell me what exhibit number your  
4 rebuttal is?

5 A. It's Exhibit Number 9. I think what  
6 you're referring to is on page 5 at the bottom.

7 Q. No, I'm referring to page 6, lines 112  
8 and 113. Sir, does your testimony at that point  
9 specifically say: "Staff has not checked what all  
10 states have set for the affordable rate levels in  
11 their own USF programs, but would not support an  
12 affordable rate set above \$34"?

13 A. Yeah. The affordable rate here of \$34  
14 refers to --

15 MR. FODOR: The yes is sufficient, Your Honor.

16 A. No, I'd like to explain.

17 EXAMINER WOODS: You can do that on redirect.  
18 That's fine. I mean we can get around it. You're  
19 either going to get it now or you're going to get  
20 it on redirect, so.

21 MR. FODOR: I understand. I would rather get  
22 it in redirect.

1           EXAMINER WOODS: I would too. That means  
2 we're done with cross.

3           MR. SMITH: Not necessarily.

4           MR. FODOR: I apologize that I don't have this  
5 all written up. I thought you were on tomorrow, so  
6 my notes are a bit askew.

7           Q. I'm referring back now to your direct  
8 testimony.

9           A. Could you refer to a page and line  
10 number, please?

11          Q. I certainly will, yes. Your direct  
12 testimony is Exhibit 3. I'm looking at page 9. I  
13 thought I was looking at page 9. Please bear with  
14 me just a second.

15                  Well, maybe you can help me find it. Do  
16 you recall making a statement about families just  
17 above the poverty line spending 1.2 percent of  
18 their income on telephone, local telephone?

19          A. No, I don't recall anything like that.  
20 The average spent by all households is 1.2 percent.

21          MR. HARVEY: I think that might be page 11.

22          Q. There it is. It's on page 11, line 235.

1           A.     Could you -- I think we have -- my line  
2     numbers are probably different than yours.  Could  
3     you just give me the question that's at the top of  
4     it?

5           Q.     The question on top says "Please comment  
6     on option 3", and it goes on.

7           A.     Yes, I see that, and you're talking  
8     about --

9           Q.     Four lines down.

10          A.     I see that.

11          Q.     It says the average urban wage earning  
12     household spends approximately 1.2 percent.

13          A.     That's correct.

14          Q.     The word spends, is that a  
15     characterization by you from the source material?

16          A.     Yes.

17          Q.     Or is that the exact word from the  
18     source material?

19          A.     It's expenditures.

20          Q.     If I told you that I was looking at your  
21     source material and the caption said Relative  
22     Importance, could you accept that subject to check?

1 MR. HARVEY: Why don't you show him.

2 A. Yeah, why don't you show it to me?

3 Q. Well, good. Then you can tell me  
4 whether this is, in fact, the right source  
5 material.

6 (Whereupon said document  
7 was provided to the witness  
8 by Mr. Fodor.)

9 A. Yeah, I do recall this source material.  
10 Actually I probably put it in one of my footnotes.

11 Q. And that's why I have it.  
12 Do you see there that the title says  
13 "Relative Importance of Components and Consumer  
14 Price Index"?

15 A. Yes, I do.

16 Q. I think I have one more, and we can get  
17 back to your attorneys.

18 A. This is the first time I'll ever be  
19 happy to get back to my attorneys.

20 (Laughter)

21 MR. FODOR: It's always a joy to the attorneys  
22 when the client finally realizes that he needs us.

1           Q.     Okay. I'm looking at your direct  
2     testimony. I'm looking at page 6. There, again,  
3     since your line numbers and mine may differ, my  
4     entire page 6 is an answer to a question from the  
5     bottom of page 5 that began "Should each company  
6     have a different affordable rate".

7           A.     Yes, I see that.

8           Q.     In the testimony that I'm looking at  
9     there's a break, I guess indicating a new  
10    paragraph.

11          A.     Yes. I see that.

12          Q.     In that second paragraph on the page,  
13    you are making reference to some median incomes  
14    based on counties.

15          A.     That's correct.

16          Q.     Dr. Staranczak, you draw some  
17    conclusions from the fact that we might have  
18    different rates for different small companies in  
19    the same county.

20          A.     That's correct.

21          Q.     My question to you, sir, is whether you  
22    have any knowledge of whether the income levels in

1 a given county can vary from region to region  
2 within the county.

3 A. Yes. I don't have any knowledge, but I  
4 believe that they can vary substantially from  
5 region to region of a county. I saw no evidence  
6 that was the case. No one filed any evidence that  
7 was the case though.

8 Q. But you didn't do any studies on that  
9 yourself.

10 A. No, and I understand neither did the  
11 person proposing these affordable rates.

12 Q. That's okay. That's a question about  
13 burden of proof, and we put those in the briefs.

14 I lied. I have one last question on  
15 this little scrap of paper here.

16 As I understand your ultimate proposal,  
17 once an affordable rate is determined, it is your  
18 position that the company should increase rates a  
19 minimum of \$2 the first year, assuming that there's  
20 more than a \$2 difference.

21 A. That's correct.

22 Q. Okay. So if there was a \$3 difference,

1 we'd raise rates \$2 the first year, \$1 the second  
2 year.

3 A. That's correct.

4 Q. Okay. My question to you is what is the  
5 basis for your judgment that \$2 would not be rate  
6 shock?

7 A. One way to look at rate shock is the  
8 impact on the penetration rates. A \$2 increase,  
9 say on the average company, average rates was \$18.  
10 \$2 and \$18 is 10 percent. Based on the studies  
11 that I've seen, that would have a negligible impact  
12 on the penetration rate. It would cost the  
13 subscriber \$24 a year, \$2 a month times 12. To me  
14 that is a very small impact on income. Gasoline  
15 prices changing has a much more drastic impact on  
16 real income of households than the \$2 telephone  
17 rate, so it's a judgment figure.

18 Q. I understand it's a judgment. I just  
19 wanted to know the basis of the \$2.

20 You didn't perform any studies yourself  
21 about elasticity.

22 A. Not for this case, but in the past I've

1     spent years looking at elasticities.

2           Q.     Anything you did in the past that you  
3     used in this case?

4           A.     Well, in my direct I quoted a number of  
5     -.01 for penetration elasticity. This is based on  
6     estimates that I'm familiar with that I personally  
7     estimated for Bell Canada.

8           Q.     What was the year of that?

9           A.     The year of that would probably be in  
10    the mid '80s sometime.

11          Q.     Is it your opinion then that the  
12    elasticity of telephone service has not changed  
13    since that time?

14          A.     You'd have to be more precise.  
15    Elasticity of what telephone service?

16          Q.     Local telephone service, landline.

17          A.     Access?

18          Q.     Yes.

19          A.     My impression would be for that it  
20    probably would have gone down. Penetration rates  
21    for -- elasticities for local telephone service  
22    usually depend on the penetration rate. When the



1 penetration rates go up, the elasticity usually  
2 goes down. I don't want to go into the  
3 mathematics.

4 Q. Neither do I. Lawyers don't do math  
5 very well.

6 A. So I've noticed.

7 (Laughter)

8 Q. So are you saying that telephones -- are  
9 you saying -- well, let me strike that.

10 Would it be a correct statement then  
11 that in your opinion telephone service is more  
12 elastic now than it was in '84? And when I say  
13 telephone service, I mean landline local service  
14 access.

15 A. No. I would say the exact opposite.

16 MR. FODOR: Okay. That's all I have.

17 MR. ROONEY: Mr. Examiner, I apologize. I  
18 have a confused understanding of one concept here  
19 that I have a couple questions on.

20 Dr. Staranczak --

21 MR. HARVEY: Could I just interject here?

22 This is like the third shot here.

1 MR. ROONEY: Well, it's in response to --

2 EXAMINER WOODS: It's not uncommon in these  
3 hearings for people to follow up on other parties'  
4 questions. Go ahead.

5 MR. ROONEY: Thank you.

6 CROSS EXAMINATION

7 BY MR. ROONEY:

8 Q. Dr. Staranczak, the affordable rate  
9 you're proposing is not for the purposes of setting  
10 these companies' actual rates that they charge  
11 customers. Am I correct?

12 A. The purpose of the affordable rate is to  
13 determine what level of revenue should be imputed  
14 to the companies for purposes of eligibility for  
15 the Universal Service Fund.

16 Q. So when you propose to increase the  
17 affordable rate by \$2 I believe, am I correct in  
18 understanding that that's the imputed rate that  
19 would be used to establish the level of funding for  
20 universal service?

21 A. Yes, but I would expect them to actually  
22 increase the rate \$2 as well.

1           Q.     But then they'd have to come in to the  
2     Commission for a rate proceeding in order to raise  
3     their rates otherwise?

4           A.     You're getting beyond my knowledge's  
5     threshold.

6           MR. ROONEY:   Okay.   Thank you.   That's it.

7           MR. HARVEY:   May I have a moment?

8           EXAMINER WOODS:   You may.

9                                 (Whereupon a short recess  
10                                was taken.)

11          EXAMINER WOODS:   Back on the record.

12                               REDIRECT EXAMINATION

13          BY MR. HARVEY:

14          Q.     Dr. Staranczak, I ask you with some  
15     trepidation to turn to page 6 of your rebuttal  
16     testimony, lines 112 and 113, and Mr. Fodor asked  
17     you a number of questions about that.

18          MR. SMITH:   I'm sorry.   Which one was this?

19          MR. HARVEY:   112, 113, rebuttal testimony,  
20     Exhibit 9.0.

21          MR. SMITH:   Okay.

22          MR. HARVEY:

1           Q.     Dr. Staranczak, reference is made there  
2     to an affordable rate of \$34. Does that affordable  
3     rate include taxes, surcharges, end user common  
4     line charges, and similar additional charges?

5           A.     No, it doesn't.

6           MR. HARVEY: Nothing further.

7           EXAMINER WOODS: Okay. Let's go off the  
8     record.

9                                 (Whereupon at this point in  
10                                the proceedings an  
11                               off-the-record discussion  
12                               transpired, and the hearing  
13                               was in lunch recess until  
14                               2:30 p.m.)

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## 1                   A F T E R N O O N   S E S S I O N

2                                   (Whereupon the proceedings  
3                                   were hereinafter  
4                                   stenographically reported by  
5                                   Carla Boehl.)  
6                                   (Whereupon Leaf River  
7                                   Telephone Company Exhibit  
8                                   Number 4 was marked for  
9                                   purposes of identification  
10                                  as of this date.)

11           MR. FODOR:   The senator is here, whenever you  
12           are ready.

13           EXAMINER WOODS:   I am ready.   Before you sit  
14           down, will you raise your right hand, please.

15                                  (Whereupon the Witness was  
16                                  duly sworn by Examiner  
17                                  Woods. )

18           EXAMINER WOODS:   Thank you.   Be seated.  
19  
20  
21  
22

1                               SENATOR FRANK C. WATSON

2       called as a Witness on behalf of Home Telephone  
3       Company, having been first duly sworn, was examined  
4       and testified as follows:

5                               DIRECT EXAMINATION

6               BY MR. FODOR:

7               Q.     Sir, would you please state your full  
8       name for the court reporter and spell your last  
9       name.

10              A.     Frank Charles Watson, W-A-T-S-O-N.

11              Q.     And have you filed some prepared  
12       testimony in this case on behalf of Home Telephone  
13       Company?

14              A.     Yes, I have.

15              Q.     I told you I wasn't going to hand you a  
16       copy, but I think I will. And I am going to give  
17       the court reporter a copy.

18                      Sir, does this appear to be your  
19       prefiled testimony in this case?

20              A.     Yes, it is.

21              Q.     Have you reviewed the testimony before  
22       coming in this morning?

1           A.     Yes, I have.

2           Q.     This afternoon, I gather?

3           A.     Yes, I have.

4           Q.     Do you have any changes to make?

5           A.     No, I do not.

6           Q.     If I were to ask you each of the  
7 questions contained on that document today, would  
8 you give the same answers?

9           A.     Yes, I would.

10          MR. FODOR: Your Honor, subject to any cross  
11 that the parties may have, I would offer the  
12 exhibit. I believe -- what's the top of that  
13 exhibit say, Senator?

14          SENATOR WATSON: Six.

15          MR. FODOR: Home Telephone Exhibit 6.0, and I  
16 would tender the Senator for cross examination.

17          EXAMINER WOODS: Any objection to the  
18 introduction into evidence of Home Telephone  
19 Exhibit 6.0?

20          MR. SMITH: No, and I concur in the offering  
21 of the exhibit.

22          EXAMINER WOODS: Document is admitted without

1 objection.

2 (Whereupon Home Telephone  
3 Company Exhibit 6.0 was  
4 marked for purposes of  
5 identification as of this  
6 date and admitted into  
7 evidence.)

8 The witness is available for cross.

9 Mr. Muncy?

10 MR. MUNCY: No cross examination.

11 EXAMINER WOODS: Mandatory cross.

12 MR. MUNCY: No mandatory cross. You might get  
13 some friendly cross examination if that's allowed  
14 and it is mandatory.

15 EXAMINER WOODS: Mr. Rooney?

16 MR. ROONEY: No.

17 EXAMINER WOODS: Staff?

18 MR. BRADY: No, sir.

19 EXAMINER WOODS: Heavy hitters?

20 Well, Senator Watson, I think it's not  
21 very dramatic, but the testimony is admitted into  
22 the evidence and will be considered by the



1 Commission in coming to a decision in this case.

2 Thank you for coming in today.

3 SENATOR WATSON: Thank you very much and I  
4 appreciate you accommodating my schedule.

5 EXAMINER WOODS: Not a problem.

6 SENATOR WATSON: I appreciate it very much.  
7 Thank you. Thank you, sir.

8 (Witness excused)

9 MR. IRWIN: Good job.

10 (Laughter)

11 EXAMINER WOODS: Mr. Clausen is next? While  
12 he is coming up and getting situated, let's go off  
13 the record just very briefly.

14 (Whereupon there was then  
15 had an off-the-record  
16 discussion.)

17 EXAMINER WOODS: Let's go back on the record.  
18 Mr. Clausen, were you previously sworn?

19 WITNESS CLAUSEN: Yes.

20

21

22

1 TORSTEN CLAUSEN

2 called as a Witness on behalf of the Staff of the  
3 Illinois Commerce Commission, having been first  
4 duly sworn, was examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. HARVEY:

7 Q. Mr. Clausen, would you please state  
8 your name and spell it for the reporter.

9 A. Yes. My name is Torsten Clausen,  
10 T-O-R-S-T-E-N. Last name is Clausen,  
11 C-L-A-U-S-E-N.

12 Q. Do you have before you two pieces of  
13 testimony labeled for identification Staff Exhibit  
14 Number 4.0 and Staff Exhibit Number 10.0?

15 A. Yes, I do.

16 Q. Turning your attention to Staff Exhibit  
17 Number 4.0, is that your direct testimony in this  
18 Phase II of this proceeding?

19 A. Yes, it is.

20 Q. Does it consist of 12 pages of text in  
21 question and answer format?

22 A. Yes, it does.

1 Q. Was it prepared by you?

2 A. Yes.

3 Q. Do you have any additions or corrections  
4 to make to it?

5 A. No.

6 Q. If I were to ask you the questions  
7 contained in Staff Exhibit 10.0 -- or check that,  
8 4.0, would your answers be the same as those that  
9 are set forth therein?

10 A. Yes, they would be.

11 Q. Turning your attention, please, to Staff  
12 Exhibit Number 10.0, that document, does it consist  
13 of six pages of text in question and answer format?

14 A. Yes, it does.

15 Q. Is that your rebuttal testimony in this  
16 proceeding?

17 A. Yes.

18 Q. If I were to ask you the questions  
19 contained in Staff Exhibit Number 10.0 today, would  
20 your answers be the same?

21 A. Yes.

22 Q. Would you have any corrections or

1 additions?

2 A. No.

3 MR. HARVEY: I move for admission of Staff  
4 Exhibits Number 4.0 and 10.0 at this time, and  
5 tender the witness for cross examination.

6 EXAMINER WOODS: Documents are admitted  
7 without objection.

8 (Whereupon Staff Exhibits  
9 4.0 and 10.0 were marked for  
10 purposes of identification  
11 as of this date and admitted  
12 into evidence.)

13 The witness is available for cross.  
14 Mr. Muncy.

15 CROSS EXAMINATION

16 BY MR. MUNCY:

17 Q. Mr. Clausen, I have some questions about  
18 implementation issues. If the Commission were to  
19 adopt intrastate retail revenues as the funding  
20 methodology and there was a need to implement the  
21 fund quickly for all local exchange carriers and  
22 interexchange carriers as referred to in Section

1     13, in the applicable section of the Act, is there  
2     publicly available -- does the Staff have access to  
3     information or does the public have access to that  
4     information from a source today if, for example, it  
5     was determined to be -- let me ask you first of  
6     all -- if the relevant data was for the calendar  
7     year 2000?

8           A.     There is certainly -- as you are  
9     probably well aware, companies are required to file  
10    their annual reports with the ICC and so we have  
11    public available data for some companies. Some of  
12    the data that is contained in those annual reports  
13    is proprietary, but we do have an understanding of  
14    what intrastate retail revenue is by using an  
15    estimate of year 2000 numbers.

16          Q.     And if the year 2000 were chosen as the  
17    relevant data for initial implementation purposes,  
18    can the Staff, having access to all of the annual  
19    reports, could it determine the intrastate retail  
20    revenues from the annual reports?

21          A.     I believe to a very reasonable extent  
22    that is possible from the information that we have

1     here at the ICC for the year 2000. And as we just  
2     talked about in the off-the-record about the  
3     workshop coming up regarding implementation issues,  
4     I would just note that Staff is intending on  
5     circulating a proposal out to implement the fund  
6     that will begin to operate in October and using  
7     data that is available to us at this time.

8                 And I am also aware that Mr. Schoonmaker  
9     in his testimony raises the same issues and I think  
10    the proposals are very similar when it comes to how  
11    to implement at least the initial phase of this new  
12    Universal Service Fund.

13            Q.     Am I correct that you provided a data  
14    request response to the IITA concerning intrastate  
15    retail revenues which Mr. Schoonmaker then in turn  
16    attached to his rebuttal testimony as IITA Exhibit  
17    4, Attachment 9?

18            A.     Correct.

19            Q.     And that was your response?

20            A.     Correct.

21            Q.     And am I correct that, based upon the  
22    information that you do have available now, that it

1 is the Staff's estimate that for the year 2000 the  
2 Illinois intrastate retail revenues for local  
3 exchange carriers and interexchange carriers  
4 certificated by the Commission is approximately  
5 \$4.622 billion?

6 A. That is correct.

7 Q. And am I also correct that in that data  
8 request response at page 2, that if the Commission  
9 approved a fund in one of your hypotheticals at a  
10 level of \$12 million, that you are estimating that  
11 for a bill for intrastate telecommunication  
12 services of \$30, that would result in an end user  
13 surcharge, if the Commission determined that was  
14 appropriate, of some 7.8 cents?

15 A. Correct.

16 Q. You made a proposal in your direct  
17 testimony concerning the recipient carriers  
18 indicating some line items on their bill. You  
19 discussed that, I believe, at page 11 of your  
20 direct testimony?

21 A. Correct.

22 Q. I gather, you see from Mr. Schoonmaker's

1     rebuttal testimony that we don't agree with that  
2     proposal?

3             A.     I can see that, yes.

4             Q.     Would you agree that the way you have  
5     depicted this charge on page 11 of your direct  
6     testimony, that what you are calling a monthly line  
7     charge is a number that would just simply have to  
8     be back figured?

9             A.     I agree.

10            Q.     And that would not be a rate that  
11     necessarily either -- first of all, it wouldn't be  
12     a rate that was approved by this Commission in some  
13     fashion?

14            A.     No, it would not be.

15            Q.     And also because of at least the Staff's  
16     proposals about rate of return limitation and their  
17     use of the HAI model, that monthly line charge  
18     would, as it would have to be back figured,  
19     wouldn't reflect either the embedded cost of  
20     providing these services or a forward-looking cost  
21     such as those developed by the HAI model?

22            A.     No, it would not correspond to any of



1       these numbers.

2               MR. MUNCY: Thank you. That's all the  
3       questions I have.

4               MR. FODOR: It would be mine to follow up?

5               EXAMINER WOODS: Go ahead.

6                               CROSS EXAMINATION

7               BY MR. FODOR:

8               Q.     I am speaking to the same piece of  
9       testimony that Mr. Muncy was just questioning you  
10      about, your proposal for showing the universal  
11      service on the customer's bill as a credit. My  
12      question is actually more technical in nature.  
13      Have you considered the implications for  
14      telecommunications excise tax purposes of showing  
15      that higher number on the customer's bill?

16              A.     For tax purposes?

17              Q.     If you don't understand, I will ask  
18      another question.

19              A.     Yeah, you might want to rephrase that.

20              Q.     The Illinois Department of Revenue  
21      enforces the Illinois Telecommunications Excise Tax  
22      Act. That tax is seven percent. The tax is

1     imposed on gross receipts. Under your proposal,  
2     the customer would get a bill showing that he was  
3     paying \$55?

4           A.     It's not necessarily true. If you do  
5     follow my proposal, the amount due would still be  
6     the amount that actually gets paid. So in terms --  
7     I don't know what that means in terms of tax  
8     consideration, but I don't think that would create  
9     necessarily a problem.

10          Q.     But you haven't had any conversations  
11     with anybody at the Illinois Department of Revenue  
12     about the implications?

13          A.     I certainly did not, no.

14          Q.     And you don't know whether they would  
15     accept multiplying the seven percent by the 30 or  
16     by the 55?

17          A.     I don't know what they would do, no.

18          Q.     And if I asked you the same question  
19     about the Federal Excise Tax of three percent,  
20     would you give the same answer?

21          A.     I would give the same answer.

22          Q.     And if I asked you about the one half

1     percent state infrastructure maintenance fee  
2     administered by the Illinois Department of Revenue,  
3     would you give the same answer?

4             A.     I would give the same answer.

5             MR. FODOR:   That's all I have, Your Honor.

6                     CROSS EXAMINATION

7             BY MR. IRWIN:

8             Q.     Mr. Clausen, how long have you been on  
9     the staff of the Illinois Commerce Commission?

10            A.     A little over one year now.

11            Q.     I am going to ask you a question, but I  
12    think I know the answer.   Have you or any other  
13    Illinois staff member or employee of the Illinois  
14    Commerce Commission had any communication with the  
15    Federal Communications Commission or the National  
16    Exchange Carrier Association respecting the  
17    petition for declaratory ruling on behalf of  
18    Moultrie Independent Telephone Company that is  
19    pending before the Federal Telecommunications  
20    Commission?

21            A.     I can only speak for myself.   I have  
22    not.

1 MR. IRWIN: Thank you. No further questions.

2 EXAMINER WOODS: Anyone else? Redirect?

3 MR. HARVEY: I think one question.

4 EXAMINER WOODS: All right.

5 MR. HARVEY: You know what? I am not going to  
6 ask it. No redirect.

7 EXAMINER WOODS: Thank you, Mr. Clausen.

8 (Witness excused)

9 MR. IRWIN: Mr. Woods, I don't want to  
10 interrupt but sometimes the microphone gets a  
11 little close and there is a high feedback that I am  
12 a little sensitive to.

13 EXAMINER WOODS: Yes, I think we all are.

14 Don't get so close to the microphone, all right.

15 Have you been sworn?

16 (Whereupon the Witness was

17 duly sworn by Examiner

18 Woods.)

19 (Whereupon Ameritech

20 Illinois Exhibits 2.0 and

21 2.1 were marked for purposes

22 of identification as of this

1 date.)

2 J. THOMAS O'BRIEN

3 called as a Witness on behalf of Ameritech  
4 Illinois, having been first duly sworn, was  
5 examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MS. HERTEL:

8 Q. Would you state your name for the  
9 record, please, and spell your last name.

10 A. Excuse me. J. Thomas O'Brien,  
11 O'B-R-I-E-N.

12 Q. Do you have before you a document that  
13 has been marked as Ameritech Illinois Exhibit 2.0  
14 which consists of 25 pages of questions and  
15 answers?

16 A. Yes, I do.

17 Q. Were these prepared at your request and  
18 direction?

19 A. Yes, they were.

20 Q. And if I asked you the same questions  
21 today, would your answers be the same?

22 A. Yes, it would.

1           Q.     Do you have any corrections or changes  
2     to make to this piece of testimony?

3           A.     No, I do not.

4           Q.     Do you also have before you a second  
5     document which has been marked as Ameritech  
6     Illinois Exhibit 2.1?

7           A.     Yes, I have that. I'm sorry.

8           Q.     And does that consist of 13 pages of  
9     questions and answers?

10          A.     Yes, it does.

11          Q.     And did you also prepare this piece of  
12     testimony?

13          A.     Yes, I did.

14          Q.     If I asked you the same questions today,  
15     would your answers be the same?

16          A.     Yes, they would.

17          Q.     And do you have any changes or  
18     corrections that you want to make to this piece of  
19     testimony?

20          A.     No.

21          MS. HERTEL: I move to admit Ameritech  
22     Illinois 2.0 and 2.1.

1           EXAMINER WOODS:  Objection?  Documents are  
2   admitted without objection.

3                               (Whereupon Ameritech  
4                               Illinois Exhibits 2.0 and  
5                               2.1 were admitted into  
6                               evidence.)

7           MS. HERTEL:  Mr. O'Brien is available for  
8   cross examination.

9           EXAMINER WOODS:  Witness is available for  
10   cross.

11          MR. FODOR:  You want me to start off?  I  
12   really don't have much.

13          EXAMINER WOODS:  Okay.

14                               CROSS EXAMINATION

15          BY MR. FODOR:

16          Q.     Sir, have you ever been employed in a  
17   management position with a rural telephone company?

18          A.     No, I have not.

19          Q.     Have you ever been employed in a more  
20   operational position with a rural telephone  
21   company?

22          A.     No, I have not.

1           Q.     If I asked you the same two questions  
2     with respect to small telephone companies, would  
3     you give the same answers?

4           A.     Yes, I would.

5           MR. FODOR:   That's all I have, Your Honor.

6                       CROSS EXAMINATION

7           BY MR. MUNCY:

8           Q.     Is this your swan song, testifying as a  
9     witness while an employee of Ameritech Illinois?

10          A.     I can't answer that since I am under  
11     oath, and I don't know how to answer that.

12                       (Laughter)

13          MR. HARVEY:   I think Gephardt's example might  
14     prove instructive on this point.

15          MR. MUNCY:   Yeah, I know.

16          Q.     Mr. O'Brien, if the Commission  
17     determined that there should be a uniform  
18     percentage surcharge on customers' bills in  
19     connection with a fund that is established, I guess  
20     my first question to you is can you provide any  
21     information for the record about how long it would  
22     take Ameritech to implement this billing change in



1 Illinois?

2 A. I cannot state exactly what the time  
3 period would be, but it would likely take a few  
4 months once it would be determined exactly how this  
5 was going to be implemented in order to get that  
6 programed into the billing system and be ready to  
7 start doing such a percentage surcharge. There may  
8 be the possibility in the meantime of having to do  
9 some sort of tracking so that there could be some  
10 retroactivity if the fund went into place earlier.

11 Q. In regard once again to implementation  
12 issues, and you just heard my discussion with Staff  
13 witness Clausen, and does Ameritech have any  
14 position concerning how best to implement the fund  
15 and what information to use in order to do that in  
16 light of the short anticipated time frame?

17 A. I believe, as I discussed I think in my  
18 rebuttal testimony, I think that the quickest way  
19 to implement a fund, as well as the most  
20 competitively neutral and fairest way, is what I  
21 testified as being a percent surcharge that would  
22 be applied to all customers' bills equally.

1                   And the reason I say that is I believe I  
2     heard Mr. Clausen indicate that they believe that  
3     they have the amount of retail revenues that would  
4     be generated at least in the year 2000. Once that  
5     is determined and once the ultimate size of the  
6     fund is determined, there can be a percent  
7     calculation made right from those numbers. In  
8     other words, dividing the size of the fund by the  
9     total intrastate retail revenues would give a  
10    percentage amount that then could be applied  
11    equally to each customers' bill within the state.

12                  I believe also as you go down the line  
13    that becomes easier to implement year in and year  
14    out because you aren't continually having to  
15    determine each company's amount of retail, figuring  
16    out what their assessment is, and have them figure  
17    out how much each year they are going to be  
18    assessing their customers. And as customers move  
19    from one company to another, it really is going to  
20    have no impact then on the way that fund size is  
21    determined.

22                  MR. MUNCY: That's all the questions I have.

1 EXAMINER WOODS: Anything else on cross?

2 MR. HARVEY: Nothing from Staff.

3 EXAMINER WOODS: Redirect?

4 MS. HERTEL: No.

5 EXAMINER WOODS: Okay. Step down.

6 (Witness excused)

7 MR. SMITH: One minor matter for the record,  
8 earlier I referred to an affidavit that I was  
9 submitting in response to the motion to strike by  
10 the joint movants. I have had the reporter mark it  
11 as Leaf River Exhibit 4.

12 EXAMINER WOODS: Whose?

13 MR. SMITH: I have had it marked as Leaf River  
14 Exhibit 4 so it will be marked by the record.

15 EXAMINER WOODS: Okay. It will be admitted  
16 without objection.

17 MR. ROONEY: Well, I don't think we are moving  
18 it as evidence. We are identifying it for purposes  
19 of attaching it to the response to the motion to  
20 strike. We would not -- we would object to having  
21 it admitted as evidence.

22 MR. SMITH: I am marking it for the record for

1 the purposes of the motion.

2 EXAMINER WOODS: So this was just --

3 MR. SMITH: If it's admitted, it should be for  
4 the limited purpose of the motion.

5 EXAMINER WOODS: I was just trying to figure  
6 out from a Clerk's office perspective of how we  
7 should deal with this. So are you saying this  
8 should have accompanied the original response to  
9 the motion and this is just being filed now?

10 MR. SMITH: Yes. I made certain statements in  
11 there and this is now statements made under oath to  
12 support what I had asserted. So that's correct.

13 EXAMINER WOODS: So this should be taken to  
14 the Clerk's office and put with the motion,  
15 wherever the motion is right now.

16 MR. SMITH: That's another way to do this.  
17 That's fine.

18 MR. HARVEY: If it would be possible to  
19 circulate it to the other parties as well, I don't  
20 think I have seen this. I don't think I have any  
21 objection to it at all.

22 MR. SMITH: Absolutely. I have copies.

1           EXAMINER WOODS: I will get that to the  
2 Clerk's office. Who is next, Sully?

3           MR. FODOR: Nobody left but AT&T's witness. I  
4 understand there is not going to be any cross, but  
5 I do have a motion to strike portions of her  
6 testimony.

7           EXAMINER WOODS: Okay. Let's take that now.  
8 Cheryl, do you have a copy of the testimony you can  
9 bring me now, please?

10          MS. HAMILL: I do.

11          MR. FODOR: This is all rebuttal, Cheryl. You  
12 ready?

13          EXAMINER WOODS: Yeah.

14          MR. FODOR: Your Honor, in light of your  
15 ruling yesterday with respect to a motion to strike  
16 by other parties in this docket, I don't know if I  
17 need to identify an individual one of my companies.

18          EXAMINER WOODS: Not particularly.

19          MR. FODOR: If I do, I would identify Home  
20 Telephone Company as the guilty party making the  
21 motion.

22          EXAMINER WOODS: Okay.

1           MR. FODOR: I am moving to strike portions of  
2     the rebuttal testimony and attached exhibits of  
3     AT&T witness Cate Hegstrom on the grounds that it  
4     is not rebuttal. I can identify the pages for  
5     everybody.

6           Basically, Ms. Hegstrom indicated in her  
7     direct testimony that she was going to provide some  
8     exhibits to show the HAI runs in the future. The  
9     HAI runs that she subsequently provides in her  
10    rebuttal testimony are not based on any rebuttal to  
11    any other party's witness. They are based on her  
12    other witness' calculations of the HAI. And for  
13    that purpose my motion is to strike beginning on  
14    page 9, line 7 through the end of the page, page  
15    10, lines 1 through 5, and then it jumps over to  
16    page 13, lines 8 through the end of the page.

17          MS. HAMILL: I am sorry. What page was that?

18          MR. FODOR: I am sorry, page 13, line 8 to the  
19    end of the page, and page 14, lines 1 through 16.  
20    Each of these relates to an HAI calculation based  
21    on Doctor Clarke's original direct testimony and  
22    they are not rebutting any other party's position.

1                   To the extent that the difference  
2     between these exhibits, one of them shows the  
3     numbers at the actual calculation and the other one  
4     shows the numbers with Ms. Hegstrom's proposed  
5     averaging, that doesn't change the nature of the  
6     underlying presentation.     The presentation is  
7     still based on Doctor Clarke's original statements  
8     about which things he would accept and would not  
9     accept for the purpose of the HAI inputs.

10                  So, therefore, the motion also with  
11     respect to the text that I identified, that text is  
12     where AT&T Exhibits 5.1, 5.2, 5.3, 5.4, 5.5, 5.6  
13     and 5.7 are identified, and I would move to strike  
14     each of those exhibits.

15                  MR. SMITH: Concur in the motion.

16                  EXAMINER WOODS: What is the reference in her  
17     direct testimony that you are talking about?

18                  MR. FODOR: I can find it quickly. It is also  
19     the very first reference that I made in her  
20     rebuttal. I think the question refers back to the  
21     direct.

22                  EXAMINER WOODS: I am still looking for your





1 in a short recess.)

2 EXAMINER WOODS: Okay.

3 MS. HAMILL: Okay. Just to give you a little  
4 synopsis of what occurred here, when we -- when  
5 Ms. Hegstrom filed her testimony on May 11, her  
6 direct testimony, at that time we had the March and  
7 the April filings by Mr. Schoonmaker. With the  
8 direct testimony Ms. Hegstrom did attach as  
9 exhibits to her direct testimony what the results  
10 would be if you did the runs based on  
11 Mr. Schoonmaker's revised input to the HAI model  
12 which he proposed and the default inputs to the HAI  
13 model.

14 At the time we filed direct testimony on  
15 May 11, Ms. Hegstrom and Doctor Clarke filed  
16 direct. Doctor Clarke at that time made revisions  
17 to the HAI default inputs which he stated in his  
18 direct testimony.

19 At that time -- well, and then Ms.  
20 Hegstrom also made some proposals, well, basically  
21 set forth the AT&T methodology in her direct  
22 testimony which is we, for the cost of providing

1 local service, we recommend the HAI model as IITA  
2 proposed with the inputs recommended by Doctor  
3 Clarke, the revised inputs.

4 In addition to that, our proposal is  
5 that to the extent that any of the small company's  
6 excess revenues exceed the access cost using the  
7 HAI default inputs, that company ought to be  
8 ineligible. That's the AT&T proposal or  
9 methodologies.

10 At the time we filed the direct  
11 testimony, we were waiting for -- we wanted to make  
12 sure we had the most recent data in terms of access  
13 lines, traffic volume, what have you, from the  
14 IITA. At that time we didn't have the numbers  
15 readily available. We set forth the methodology in  
16 Ms. Hegstrom's direct testimony and said we will,  
17 with our rebuttal testimony, provide what numbers  
18 come out of our proposed methodology.

19 We did not receive discovery from any  
20 company regarding what our numbers were going to be  
21 in the interim. Having said that, we knew that the  
22 HAI, or I'm sorry, the IITA had the HAI model and

1 the relevant data because it's their data. They  
2 could have done the runs.

3 We did as we anticipated, had received  
4 the information, and filed the rates that would  
5 result from the methodology based on the  
6 information we received from the IITA on May 31.  
7 That gave the companies until the rebuttal date in  
8 June to respond to all the information that AT&T  
9 had put forth. There was no intervening IITA  
10 filing date between the 11th of May and the 31st of  
11 May.

12 So I disagree that it's improper  
13 rebuttal in that the actual Staff -- I am sorry,  
14 the actual methodologies that AT&T sets forth for  
15 determining what companies ought to be eligible for  
16 is in the direct testimony and will remain as part  
17 of the record.

18 Basically, the schedules that are, at  
19 least 5.1 through 5.4, those exhibits and the  
20 rebuttal testimony pretty much set forth, based on  
21 the most recent data, what adopting AT&T's  
22 methodology would look like. So if the schedules

1     are stricken, you run the risk then of the  
2     Commission adopting AT&T's proposed methodology  
3     which we hope they do, but it seems to me the  
4     Commission would want to have the documentation  
5     available to say or to look at to determine, if I  
6     adopt AT&T's methodology, this is what the results  
7     will look like because the inputs are what the  
8     inputs are.

9             As to some of the testimony and exhibits  
10    that Mr. Fodor refers to, for example, the parts he  
11    moves to strike on pages 10 and 14 of the rebuttal  
12    testimony and Schedules 5.5 through 5.7, it  
13    actually talks about what numbers would arise using  
14    the AT&T inputs, but using the methodology that  
15    Staff proposed in its May 11 testimony that we were  
16    clearly entitled to rebut on May 31.

17            So I guess in closing, my position is it  
18    is not improper rebuttal. The companies knew what  
19    our methodology was back on May 11. They could  
20    have made the runs themselves. They could have  
21    done discovery. And the Commission, I think, would  
22    run the risk of not having complete and full

1 information if they had a methodology out there and  
2 don't have the schedule or something to look at to  
3 say, if we adopt this, this would be the end result  
4 of our policy decision. Thank you.

5 EXAMINER WOODS: Okay. Response?

6 MR. FODOR: No reply.

7 EXAMINER WOODS: Okay. I am going to think  
8 about this and I will let you know what I am  
9 thinking about. I don't recall the testimony of  
10 any witnesses on direct indicating that there would  
11 be further filings at a later date that were  
12 subject to the motion to strike. I think that's a  
13 distinction that is very important here.

14 I mean, obviously the ruling on the  
15 motion to strike was basically based upon two  
16 things. One, it didn't actually go to rebut  
17 anything in the direct case, but I think more  
18 importantly there was the element of surprise in  
19 that brand new cost studies came in at a date when  
20 it was not possible for anyone to do any meaningful  
21 discovery or prepare testimony with no filing date  
22 afterwards.

1           I think there is a distinction here in  
2   that there were clearly an indication that this  
3   stuff was going to be in the rebuttal testimony,  
4   which to me takes the element of surprise out.

5           I will look a little more carefully as  
6   far as what it actually goes toward rebutting  
7   overnight and make my ruling tomorrow, but my  
8   inclination is it is going to come in.

9           Do we have any other witness? Just  
10   Ms. Hegstrom. So we will hold her in abeyance  
11   pending -- well, that's going to be late-filed  
12   anyway.

13          MS. HAMILL: Yes, the affidavit with whatever  
14   comes in will have to be late-filed in July. Thank  
15   you.

16          EXAMINER WOODS: Okay. Off the record.

17                               (Whereupon there was then  
18                               had an off-the-record  
19                               discussion.)

20                               (Whereupon the hearing was  
21                               in a short recess.)

22          EXAMINER WOODS: This cause is continued to

1     9:00 a.m. June 21, 2001. See ya.

2                             (Whereupon the hearing in  
3                             this matter was continued  
4                             until June 21, 2001, at 9:00  
5                             a.m. in Springfield,  
6                             Illinois.)

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